Massachusetts Bay
Transportation Authority

Proposal for New Orange
and Red Line Vehicles
MBTA "RFP No. CAP 27-10"

Submitted by:

CNR MA

Part B Technical Proposal, Statements and Certifications Regarding Eligibility

Volume 2 of 2

May 15, 2014

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FROM POTENTIAL SUPPLIERS

SECTION B
PART B TECHNICAL PROPOSAL AND STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

NOTE: The Authority reserves the right to audit compliance with respect to each of the required statements and certifications in the forms submitted by Offerors, including but not limited to the Domestic U.S. Content Certification, Domestic U.S. Content Worksheet, and Final Assembly of Production (Non-Pilot) Vehicles in Massachusetts.

Questions Concerning Eligibility

Provide short answers (and attach relevant documents) to the following questions and requests:

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.
   See attached Certificate of Good Standing from Massachusetts

2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.
   Alstom Transport Holding US Inc.; (212) 557-7265

3. Provide the names, title and telephone numbers of all officers.
   See attached Director's List

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.
   Yes – signaling system contract (MBTA Blue Line) and signaling equipment product orders.

5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause. **No**

6. Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances. **No**

7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.
   1 minor personal injury lawsuit

8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

   James T. Haggerty
   Senior VP
   Marsh Casualty – Advisory Specialist
   20 Church Street
   Hartford, CT 06103
   (860) 723-5759

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

   Information to be provided upon our receipt.

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law? **No**

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity.
    See attached Consolidated Financial Statements

12. Provide the business's current code of business ethics or equivalent.
    See attached Code of Business Ethics

The Commonwealth of Massachusetts
Secretary of the Commonwealth
State House, Boston, Massachusetts 02133

William Francis Galvin
Secretary of the
Commonwealth

Date: February 28, 2014

To Whom It May Concern :

I hereby certify that according to the records of this office,

ALSTOM SIGNALING INC.

a corporation organized under the laws of

DELAWARE

on **October 05, 1990** was qualified to do business in this Commonwealth on

March 19, 1991 under the provisions of the General Laws, and I further certify that said

corporation is still qualified to do business in this Commonwealth.

I also certify that said corporation is not delinquent in the filing of any annual reports required to

date.

In testimony of which,
I have hereunto affixed the
Great Seal of the Commonwealth
on the date first above written.

William Francis Galvin

Secretary of the Commonwealth

Certificate Number: 14036431460

Verify this Certificate at: http://corp.sec.state.ma.us/CorpWeb/Certificates/Verify.aspx

Processed by: tgr

ALSTOM Signaling Inc.

Directors

Name	Address	Telephone No.
Xinhong (Muriel) Luo	1025 John Street West Henrietta, NY 14586	585-279-1904
Guillaume Mehlman	641 Lexington Avenue New York, New York 10022	212-557-7265
William Schoelwer	801 Pennsylvania Avenue, NW Washington, D.C. 20004	202-534-1084

Officers

Name	Title and Address	Telephone No.
Xinhong (Muriel) Luo	President & CEO 1025 John Street West Henrietta, NY 14586	585-279-1904
Ellen M. O'Neill	Vice President, General Counsel & Secretary 1025 John Street West Henrietta, New York 14586	585-279-2300
Frederic Matsoukis	Vice President, Finance & Chief Financial Officer 1025 John Street West Henrietta, NY 14586	585-353-0250
Michael Tolpa	Treasurer 200 Great Pond Drive Windsor, Connecticut 06095	860-285-9097
Joseph Sce	Assistant Treasurer 200 Great Pond Drive Windsor, Connecticut 06095	860-285-3540

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Standard Credit Information

Federal ID#:	11-2949993
D & B Number:	05-318-2341
Billing Address:	Attn: Accounts Payable ALSTOM Transportation Inc. 1025 John Street West Henrietta, NY 14586
Telephone Information:	Office – (585) 279-2125 Fax # - (585) 279-1886
Bank References: .	Trade and Credit Information Department HSBC Bank USA, N.A. SWIFT Code MRMDUS33 Account #: 000168769 Fed Wire Routing / ABA #: 021001088 ACH Routing / ABA #: 022000020 Fax: (716) 730-3083 or (716) 841-2793

Trade References:

Wabtec Inc. Attn: Credit Dept. PO Box 3330 Spartanburg, SC 29334 Office – (864) 433-5900 Fax # – (864) 433-6338	Bradley Supply Attn: Debbie Bradley 25 N. Transit Dr. Hornell, NY 14843 Office – (607) 324-4130 Fax # – (607) 324-2799	Advanced Transit Manufacturing Attn: Barry Walsh 14 South Main St. Canisteo, NY 14823 Office – (607) 698-4606 Fax # – (607) 698-4851

Corporate Officers:

President:	Guillaume Mehlman
Treasurer CFO and VP	Frederic Matsoukis
Asst. Secretary:	Stacey Joslin

Our code of ethics

we are shaping the future | ALSTOM

Corporate Communications - January 2010 (revised August 2013)

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"Ethical rules and values guarantee our future"

Our core values - Trust, Team and Action - ensure Alstom's overall cohesion, inspire trust among our partners, reinforce our image and, quite simply, guarantee our future.

Alstom's reputation and integrity can only be built by continuously strengthening ethical rules and procedures. Our growth is underpinned and guided by our fundamental principles of integrity and transparency, applied scrupulously and without exception with regard to employees, shareholders, customers in the public and private sectors, suppliers, competitors and partners. Our Code of Ethics is essential and all employees, in their day-to-day work, need to share the same clear values and observe the same rules of personal and collective conduct that define Alstom as an ethical company.

Through the Alstom Integrity Programme, I constantly strive to strengthen this approach and ensure that our values and rules are strictly applied, without exception. Since March 2009, the Group has been engaged in a certification process to assess that its rules and their implementation are in line with the highest international business standards.

All our ethical rules are important. However, three rules, covering competition, corruption and internal control, deserve special attention, as they are central to our individual and collective responsibilities. To ensure nothing is overlooked, any employee who has reason to believe that our Code of Ethics is being violated can immediately report the matter to his or her direct manager or use Alstom's Alert Procedure, in accordance with the relevant national laws and rules.

I rely on each and everyone of you, individually and collectively, to ensure that all our rules are respected on a daily basis.

Patrick Kron
Chairman & CEO

OUR GROWTH IS BUILT ON FUNDAMENTAL PRINCIPLES

The Code of Ethics and all relevant Group Instructions apply to everyone in the Group and those who conduct business on behalf of Alstom.

Employees are expected to assume personal responsibility for performing their duties with fairness and integrity, to have an understanding of the Code of Ethics and to refer to it regularly, to have a detailed knowledge of its provisions that apply specifically to their job and to consult their direct manager if in doubt.

Managers' responsibilities go beyond those of other employees. They must actively promote the Code of Ethics in the workplace, showing commitment through their actions. They must be vigilant in preventing, detecting and responding to any violation of the Code of Ethics, and protect employees who report violations.

OUR BASIC PRINCIPLES

Respect laws and regulations

“Do not involve the Group in unlawful practices”

Alstom's reputation for integrity is built on its respect for laws, regulations and other requirements that apply to the conduct of business in all countries in which it is present. It is the personal responsibility of Alstom employees to know the laws, regulations and requirements relating to their job. Any breach of these laws may lead to civil and criminal prosecution. Activities which could involve the Group in unlawful practices are prohibited.

Alstom is a multinational corporation with operations around the world. To ensure our high ethical goals, we require compliance with certain standards that exceed those required by applicable law. Among others, Alstom is attached to the spirit and the letter of laws governing human rights and labour, health and safety standards, environment protection, prevention of corruption, fair competition, taxation and the accurate communication of financial information. We comply with the guiding principles of the OECD, the United Nations Universal Declaration of Human Rights and the principles of the Global Compact and those of the International Chamber of Commerce (ICC). Alstom is also a member of the World Business Council for Sustainable Development (WBCSD).

Apply the principles of honesty and fairness

“No objective justifies a deviation from the rules”

Many of Alstom's activities are not the subject of laws, regulations or other mandatory requirements, in which case principles of fairness and honesty must govern our conduct. It is each employee's responsibility to apply these principles at all times. No performance objectives should be imposed or accepted if they can only be achieved by compromising our ethical standards.

OUR THREE FUNDAMENTAL RULES

The following three rules are fundamental because any deviation from their application exposes the Group and those concerned to considerable risks.

Agreements and understandings with competitors

Competition laws or antitrust laws are intended to ensure open and fair competition among companies. Open and fair competition is in the best interest of Alstom and benefits customers, consumers and society as a whole. Such laws must be complied with at all times. Severe civil and criminal sanctions can be imposed on the company and on individuals if such laws are broken.

> "Respect the rules of competition"

Alstom employees must not participate in any agreement with competitors that have the intent or effect of fixing prices, distorting a bidding process, dividing a market, limiting production or boycotting a customer or supplier. Alstom employees must not exchange sensitive information with competitors in infringement of the competition laws.

Because rules are complex and differ from one country to another, employees should consult their Legal department for clarification as necessary.

Prevention of corruption and bribery

Alstom's policy is to prohibit all unlawful payments and practices. The Group is fully committed to the elimination of corruption and bribery in its business transactions and complies with the requirements of the OECD Anti-Bribery Convention, of the US Foreign Corrupt Practices Act (FCPA), of the UK Bribery Act 2010, and with all applicable laws in the countries where it is present and follows the guidance of the "Resource Guide to the US Foreign Corrupt Practices Act".

> "Always refuse corruption in business transactions"

Alstom companies, officers, directors and employees must not offer or provide, directly or indirectly, by requesting assistance from a third party, any pecuniary or other advantage to any person in violation of any legal requirements or Alstom's ethical principles, with a view to obtaining or retaining business or securing any facility or favour that infringes regulations.

"Person" means a public official, political party, employee or agent of a customer in the public or private sectors or employee or agent of a lending agency or bank. Public officials include, but are not limited to public or government officials, agents, employees, or representatives; any political party or political party officials, agents, employees or representatives, candidates for public or political party office, members of public assemblies, officials and employees of international organisations, judges or officials of international courts, government controlled administrations' and state owned companies' employees.

Alstom companies, officers, directors and employees must not offer or provide any advantage or respond to solicitations from any party claiming real or implied influence on an agent in the public or private sector and offering to use that influence to obtain any favourable decision or market share.

Subsequently, Alstom will not take any sanction against employees for being compliant with Alstom rules by refusing any form of corruption and bribery, even if such a decision results in losing business or any other adverse consequences.

Facilitation payments are used to facilitate mandatory administrative procedures and formalities normally carried out through the proper legal channels. Such payments are petty corruption, and although they may be tolerated in some countries, they are illegal in many countries. To avoid any confusion or misunderstanding with regard to acceptable limits, Alstom prohibits any such practices.

Internal control and disclosure of information

> "Every employee has a role to play in internal control"

Internal control is key as it is designed to provide reasonable assurance to the management at every level in regard to the quality and reliability of financial and business information along with conformity to the applicable laws and regulations, and internal rules in force.

The management of the respective entities (Corporate, Country, Sector, Business or Unit) is responsible for internal control in compliance with the Group's Internal Control Manual and must confirm that it has achieved its task. The integrity of our financial and business information is essential to run our operations legally, honestly and efficiently. As a consequence, all financial and accounting information must be correctly recorded in the Group's books and accounts.

Employees are individually responsible for the records and reports they write and the information they provide (including information entered into information systems). Records should be retained in compliance with Alstom's Records Retention Policy. Management must ensure that the data recorded in the reporting system is perfectly in line with the information due to be published, with the results of the period and with the financial position at the end of the period.

At every level of the Group, employees must ensure that any records, reports, or information they use or communicate to management of the various entities (Corporate, Country, Sector, Business or Unit) enable Alstom to make full, fair, accurate and timely disclosure in reports, documents and other public communications.

These documents include financial reports and projections, research reports, marketing information, sales reports, tax returns, expense accounts, time sheets, claims, environmental and social information and other documents, including those submitted to governmental or regulatory authorities.

In no case should any financial or business records be subject to fraudulent treatment. Fraud, or the act or intent to cheat, steal, deceive or lie, is both dishonest and, in most cases, criminal. Fraud can include, but is not limited to: submitting false expense reports, forging or altering checks, misappropriating assets or misusing the Group's assets, unauthorised handling of transactions, mishandling petty cash, making an entry on records or financial statements that is not in accordance with proper accounting standards.

THE ROLE OF EMPLOYEES AND THE ALSTOM ALERT PROCEDURE

Employees may use the Group's Alert Procedure, in accordance with the laws and rules applicable in the country where they live or work, if they have reason to suspect a violation of anti-corruption, competition and securities or accounting laws and regulations.

The Alert Procedure should only be used if the employee has reason to believe that informing his or her direct manager could cause difficulties or has reason to believe that the reported alleged irregularity will not receive the proper follow-up.

In this case, employees have the choice of reporting by:

- Contacting any one of the following:
- The Country President,
- The Country Counsel,
- The Group General Counsel: Keith Carr
3 avenue André Malraux 92309 Levallois-Perret, France
keith.carr@chq.alstom.com
+33 1 41 49 31 14

- The SVP Ethics & Compliance: Romain Marie
3 avenue André Malraux 92309 Levallois-Perret, France
romain.marie@chq.alstom.com
+33 1 41 49 21 31

- Or using the two methods of communication, reachable 24 hours a day, 7 days a week, 365 days a year:
- The secure website: www.alstom.ethicspoint.com
- The toll-free hotline (dial-in numbers available on the secure website).

Every measure will be taken to respect employee confidentiality. Alstom shall honour its commitment that no employee will suffer from retaliation, such as a change of status, harassment or any other form of discrimination as a result of using the Alert Procedure or disclosing information in good faith

Relationships with our business partners

• Customers

Alstom must treat all its customers honestly and fairly, regardless of the size of their business. The Group is committed to providing customers with high-quality products and services that meet their needs.

"Be trustworthy"

Alstom gives detailed information on its products and services in its advertising, public statements and offers to individual customers. Employees who negotiate contracts must ensure that any statements, communications and presentations made to customers are accurate and truthful.

Customer confidential, sensitive or private information must not be disclosed by an Alstom employee to any person except as required or permitted within a project or contract.

• Suppliers and sub-contractors

Suppliers' and sub-contractors' inputs represent a high proportion of the value of Alstom's products and services and play an important role in customer satisfaction.

Purchasing decisions are based on objective assessment of the supplier's or sub-contractor's reliability and integrity and on the overall value of the offering in view of short and long-term considerations and objectives. For the interest of Alstom, the purchase of goods and services is based on the merits of price, quality, performance, delivery and suitability. The purchaser endeavours to ensure that a situation of dependence is not established with suppliers and sub-contractors, and therefore systematically develops credible alternatives.

"Fair selection process and observance of the Alstom Charter for Sustainable Development"

Care must be taken to avoid conflicts of interest and any appearance of partiality. Kickbacks are prohibited.

Relations with suppliers and sub-contractors are governed by procedures set out by Sourcing and Supply Chain, which should be applied by everyone and are designed to ensure all suppliers and sub-contractors are treated equally.

Alstom requires its suppliers and sub-contractors to strictly comply with all applicable legal requirements related to their activities and business environment. The Group requires its suppliers and sub-contractors to sign its Charter for Sustainable Development, underpinned by respect for human rights, employee health and safety, ethical rules, in particular those related to anti-corruption and fair competition, environmental protection and compliance with applicable laws and regulations. Alstom takes steps to ensure that these commitments are met, both during the selection process and during the contract execution.

• Business Advisors

In order to avoid any occurrence of bribery or unlawful practices exposing the Group to liability, relations with business advisors are guided by strict internal procedures.

"Strictly follow the procedures"

Business Advisor means any representative, business development consultant, agent, sponsor or lobbyist involved directly or indirectly in activities pertaining to sales or project execution. It refers also to third parties acting on behalf of Alstom, including, but not limited to, lawyers, tax advisors, customs agents, engineers, financial advisors, who interact with customers or any public or private authorities.

To prevent public and private corruption, the use of business advisors is subject to approval at Sector and Corporate levels and is supervised by the Ethics & Compliance department as far as the respect of compliance principles is concerned.

• Government and other public procurement contracts

Contracts with government-owned or public entities often require compliance with very high standards. Alstom observes the laws and regulations that govern the acquisition of goods and services by governments in all its markets, including laws prohibiting efforts to influence government officials.

"Apply the rules"

Alstom is committed to competing fairly, to being truthful and accurate and, when awarded, to perform contracts in accordance with all contractual and legal obligations.

Where government contracts involve the possession, use of, or access to classified or otherwise restricted information, it is essential that the employees involved strictly follow the security procedures applicable to such information.

Although some of Alstom's former public customers have been partially or wholly privatised, they may still be subject to the

same or similar stringent rules. In order to prevent conflicts of interest, special care must be given to the hiring of a former or current government employee. This needs to be carefully reviewed and approved by the Human Resources department.

• Export controls and trade restrictions

Local, national or international laws, regulations or similar requirements establishing embargoes, boycotts or other trade restrictions on goods, services, software or technology are enacted from time to time.

“Abide by international trade laws”

All Alstom companies, exporting goods and services or performing services outside their own countries (including technical assistance or training), must strictly comply with all applicable Export Control laws of the country in which they are present. Special care needs to be given for dual-use items (products, software and technical data which can have an application both in the civil and military fields). Employees involved in international trade must ensure they comply with the latest applicable regulations and seek guidance from their Legal department.

Failure to observe these laws and regulations could expose both the Company and the employees involved to severe penalties, including prohibition of future exports.

• Money laundering

Money laundering is the processing of criminal proceeds in order to disguise their illegal origin.

“Work only with reputable business partners”

In compliance with all laws related to this matter, Alstom conducts business with reputable partners. Employees need to be cautious with the way payments are made to detect if irregularities may exist and with partners who demonstrate suspicious behaviours in their operations.

• Conflicts of interest

Conflicts of interest distort judgement. Alstom employees must avoid any situation that involves or may involve a conflict between their personal interests (or those of family members or relatives) and those of the Group.

To protect employees and Alstom from actual or apparent conflicts of interest, employees must not make or hold any investments in a supplier, customer, competitor, consulting company or any business partner if the nature of such investments might affect a business decision taken on behalf of Alstom. Employees must not deal directly with a business partner that can be a customer, a supplier, an agent, a consultant or any other third party, if they or their family members or relatives have an interest in such third parties. If such situations arise, employees must clearly inform their Unit manager of the matter and obtain written approval to proceed.

“Raise any potential conflict of interest with your management”

Employees must refrain from accepting outside work from a supplier, customer or competitor and should not be involved in any outside work that may adversely affect their performance or judgement on the job. Employees must disclose any outside employment to their manager.

• Gifts and hospitality

Alstom aims to ensure that any business decisions taken by its employees, customers or suppliers are made solely through the proper business channels — fundamentally based on competitiveness, performance and the quality of the products and technologies it offers — and are not driven by any form of personal improper advantage or conflict of interest.

In some cultures, good business relations may sometimes involve the exchange of symbolic gifts and hospitality. Employees must not offer, accept or authorise a family member or relative to accept gifts, money, loans, invitations or any other form of special treatment from anyone involved in business dealings with the Group, if the ultimate goal is to influence business decisions.

“Do not allow decisions to be influenced”

Employees may accept or offer, on behalf of Alstom, an occasional business meal invitation or an occasional non-pecuniary symbolic gift of low value if it can be reciprocated on another occasion. Any employee required to offer or accept a gift or invitation of value as a result of protocol, courtesy or other reasons must first inform his or her Unit manager and the Legal department.

A socially responsible company

“Promote sustainable development”

Alstom applies its policies and standards in all countries in which it is present. The Group respects the cultures of local communities with which it interacts and takes into account the interests of its different stakeholders.

• Protecting the environment

Alstom has given itself the ambition and the means to make a significant contribution to environmental protection through the systems, equipment and services it sells. The Group's core activities are focused on providing advanced technology and services to improve the management of natural resources, significantly reduce emissions and greenhouse gas effects and enhance the quality of life, while contributing to economic and social progress. Alstom also communicates to its customers information on the environmental impact of its products.

“Be recognised as a reference in this domain”

Furthermore, Alstom designs its equipment and manufacturing processes for minimum consumption of energy, eliminates hazardous products and favours materials that can be recycled. Alstom includes the environmental impact in the criteria for major decisions. At all manufacturing sites and offices, this impact is managed in line with the rules set out in the Environment, Health and Safety (EHS) policy and covered by quarterly reports. Each Unit is responsible for setting its own targets in line with the policy pursued by the Group and the Sectors. In their day-to-day activities, all employees contribute to this collective effort.

• Community relations

Alstom takes into account the social, economic and environmental interests of local communities. The Group encourages its employees to build relations with local institutions, universities and schools.

“Be involved in communities”

Alstom encourages its employees to volunteer and play a role in the local community. Activities undertaken by employees on their own initiative are done so in their name and in their own time. Conflicts of interest are to be carefully avoided.

• Political contributions and activity

“No promotion of particular political interests”

Political contributions are often subject to national laws and vary from country to country. Even when legally permitted, such contributions can be a source of abuse or otherwise perceived as a questionable practice. Alstom's policy is not to make contributions, financial or in kind, to political parties or organisations, or to individual politicians.

Alstom respects the rights of its employees to participate as individuals in their community and civic affairs. This must be done at a personal level, in their own time and at their own expense, consistent with applicable laws. Alstom's stationery, funds and other property must not be used for personal political activities. Employees need to carefully separate their own political activities from Alstom activities and avoid any conflict of interest.

• Charitable contributions

“Enhance Alstom's reputation as a good citizen”

Charitable contributions made in the Group's name or using its financial resources are permitted as long as they comply with applicable laws and regulations. Contributions should have relevance to the community in which Alstom operates and must effectively serve the purpose of the charitable organisation concerned while enhancing Alstom's reputation as a good citizen. Charitable contributions must not be made without prior written approval and must be properly recorded.

• Sponsorship

Sponsorship is part of the marketing and communication strategy. It is authorised in compliance with applicable laws and regulations and solely within the framework of the Group's communications policy.

“Reflect Alstom's communications policy”

Decisions to engage the Group in any sponsorship is subject to prior approval from the Communications departments (Corporate or Sectors) and must be properly recorded.

Human Resources

“Encourage individual and collective expression”

It is Alstom's policy to fully comply with the United Nations Universal Declaration of Human Rights and with the International Labour Organization's Fundamental Conventions.

In line with these principles, Alstom applies a human resources policy based on fair treatment and respect for individuals, their dignity, rights and individual liberties, and promotes their involvement in company life. The Group promotes all forms of dialogue with both individual employees and their representatives.

• Health and safety

Alstom is committed to providing a safe and healthy work environment at all its sites, offering the same high standards wherever it has operations. These standards are set out in the

Environment, Health and Safety (EHS) policy and apply to employees and sub-contractors working at Alstom's sites or under Alstom's supervision at customer sites.

"Promote a safe work environment"

Measures to offset any risk related to health and safety issues are applied at all sites and throughout projects. These measures are implemented in partnership with the relevant bodies and committees.

Employees are responsible for reporting any hazardous situations they may witness, or any incidents indicating such risks, and for helping to implement preventive measures. Safety guidelines must be strictly adhered to.

• Security of employees

"Limit risks"

Alstom does its utmost to protect its employees, wherever they are working. The Group issues regular instructions to inform people of risks and to set out procedures to be followed, such as in the event of unstable political situations, criminal acts or health matters. All employees should familiarise themselves with these regularly updated instructions, particularly with regard to business travel.

• Social relations

"Collective interest"

Alstom respects the right of all employees to form and join trade unions and workers' organisations of their choice and to organise and bargain collectively. The social relations policy recognises that differences are a source of strength for the Group. Alstom respects the role and responsibilities of the social partners and commits to communicating and negotiating openly to address issues of collective interest.

• Equal opportunity and diversity

Alstom employees are required to comply with all laws and regulations forbidding any discrimination with respect to age, race, gender, ethnic origin, nationality, religion, health, disability, marital status, sexual preference, political or philosophical opinions, trade-union membership or other characteristics protected by applicable law.

"No discrimination"

Alstom does not tolerate any form of harassment, sexual, physical or psychological, coercion or bullying. If employees observe or experience any form of abuse, they can report it to their HR management. No adverse action can be undertaken against employees making such a good faith report. The recruitment process is exclusively based on the applicant's qualifications and skills. Remuneration is solely determined on the basis of the employee's contribution to the Group.

The recruitment, training and personal development of employees from different backgrounds is an important asset for Alstom. The Group seeks to recognise and value these differences by building teams that reflect the markets and communities in which it operates.

• Career management for employees

"Promote personal development"

As part of Alstom's "It's all about people!" policy, the Group aims to promote personal development through regular face-to-face interviews between employees and their managers. These interviews help focus on required skills, achievements, development plans and career paths according to individual needs and aspirations and business needs. Training programmes and collaborative ways of working also contribute to this process. Looking for solutions adapted to the skills of employees is maintained throughout their career, even in the event of reorganisation.

• Data privacy

Alstom and each of its employees must be particularly attentive to laws and regulations concerning privacy and protection of information concerning individuals, employees or third parties and comply with them.

"Respect individual rights"

Employees who have access to personal data shall be only those whose function and responsibility specifically include the handling of personal data; the right of access is restricted according to the nature and scope of the individual function and responsibility. Alstom does not communicate personal information to third parties, except to the extent necessary and permitted by applicable laws or regulations.

Protecting Alstom's assets

All Alstom employees should do their utmost to protect the Group's assets. Alstom's funds and assets must not be used for illegal purposes or for purposes not related to Alstom's activities.

Employees should not appropriate any of Alstom's assets for their own use or make them available to others for a non-

Alstom use. Employees must not use Alstom's assets for personal gain or personal business, nor may they allow any other person not employed or authorised by the Group to use them. Misappropriation or theft of these assets may give rise to sanctions and may constitute a violation of law, giving rise to civil or criminal prosecution.

> "Do not appropriate Alstom's assets"

Alstom's assets are not only physical or tangible items (such as funds, supplies, patented inventions, or computer and telephone networks); they also include intangibles (such as ideas, concepts or know-how) which employees develop in the course of their work for Alstom. In addition, assets cover customer/supplier lists and other market data, along with any information to which employees have access as a result of their work responsibilities.

• Respecting confidential information

Employees who may have access to confidential and proprietary data relating to Alstom's business activities, including information on customers and suppliers must only be those whose function and responsibility specifically include the handling, use and communication of such data. The right of access is restricted according to the nature and scope of the individual function and responsibility. Moreover, any employee who comes into possession of confidential or proprietary information must keep such information confidential and use it only for authorised purposes.

> "Share information with caution"

Examples of confidential information include, but are not limited to, results, forecasts and other financial data, human resources and personal data, information with respect to acquisitions and divestitures, new products and orders. Examples of proprietary information include, but are not limited to, business strategies, product improvements, technical information, systems, inventions, trade secrets or know-how developed or acquired by Alstom. This definition includes matters covered by secrecy agreements.

Employees who are not sure whether they may properly disclose or act on information in their possession should seek guidance from their manager. Employees' obligations with respect to such information continue beyond their term of employment.

• Intellectual property

> "One of our most valuable assets"

Alstom's intellectual property rights which include patents, know-how, trade secrets, trademarks, domain names, industrial designs and copyrights, are one of its most valuable assets, and are therefore protected by law, whenever possible. Employees have a duty to safeguard these assets. Alstom ensures that valid intellectual property of others are respected and not infringed by its employees.

• Using Group communications resources

The Group's communications resources – email, voicemail, internet, telephone (including mobile phone) and other means of communication – are the property of Alstom and are to be used for professional purposes.

> "Not to be used for improper purposes"

Their use for private purposes is based on the recognition that private and business lives are closely linked and that the right balance between the two is beneficial to Alstom and its employees. However, such use should be limited to what is reasonable and necessary in the circumstances. Employees are strictly forbidden from using the Alstom email system or the internet or any other means of communication for any improper purpose, and must avoid the transmission or receipt of messages or images that may be viewed as insulting, offensive or demeaning to the individual.

• Insider dealing

In the normal course of business, some employees may have access to information that can affect the value of shares, options or other securities, if such information were to become public. Since Alstom is a publicly quoted company, it is subject to the securities laws and regulations of several jurisdictions which regulate disclosure of information to the public.

> "Access to privileged information imposes obligations"

Information which may affect the value of Alstom's shares, options or other securities, is considered "inside" information and must be kept confidential until publicly disclosed by the Group. Acting on this information for personal gain or disclosing it to anyone else before it has been officially released is likely to violate securities laws and is not in accordance with Alstom policy. Penalties for violations are severe and can include fines and imprisonment.

This rule also applies to securities issued by other companies, including customers, suppliers and any business partner, listed on any stock exchange, should the employee have privileged information concerning that company.

• Communication with the media and investors

Alstom develops active communications to reinforce its image among customers, opinion leaders, analysts, investors and the public. Alstom is a publicly quoted company and

any communication with the media or analysts may affect Alstom's image or reputation and must be carefully reviewed and controlled.

Media relations are the responsibility of Corporate and Sector Communications departments. All statements to the media or responses to inquiries from the media must be handled through the Communications departments or coordinated with them. The Investor Relations department is responsible for all financial communications with analysts and investors. Any communication from an analyst or investor requesting information relating to Alstom should be forwarded to the Investor Relations department, which will deal with the matter.

"Under strict control"

Unless approved in advance by the Communications departments, employees are not authorised to represent Alstom on internet social networking platforms like social forum web sites, blogs or chat rooms.

The Code of Ethics cannot cover every conceivable situation to which an employee could potentially be exposed. Each of us must use common sense and judgement in applying these principles, refer to existing rules and guidelines, and seek advice either from management or from the relevant VP Human Resources and/or the General Counsel and/or the SVP Ethics & Compliance, if in doubt.

IMPLEMENTATION

The Alstom Integrity Programme is being implemented and monitored throughout the Group under the responsibility of the SVP Ethics & Compliance. Alstom is engaged in an Ethics & Compliance certification process. Its rules, procedures and guidelines for dealing with sales consultants were successfully certified in March 2009 by Ethic Intelligence, an international independent body, after an audit performed by SGS, a Swiss company.

Awareness and training

These principles are conveyed through rules, procedures and instructions, along with relevant training to promote the widest possible distribution within the Group, via the Alstom Integrity Programme introduced by the Ethics & Compliance department. The Alstom Integrity Programme is to be applied scrupulously in all areas of the Group and in all countries where Alstom is present.

The Code of Ethics is available to all Alstom employees on the Group's intranet site and is published on the Alstom internet site for our stakeholders. A practical guide to the Code of Ethics is available to all Alstom employees through an intranet-based e-learning programme. Other ethics e-learning programmes are available for employees who need them in their daily activities.

Alstom values and ethics are included in the induction programme for new employees. In addition, employees have access to the Ethics section on the Alstom intranet site where they can find detailed guidelines and tools.

Consequences of violations of corporate policies

All employees are personally responsible for ensuring that their conduct and that of those reporting to them fully complies with this Code of Ethics and all applicable Corporate Instructions. Violations of certain instructions may have a severe and/or lasting impact on Alstom's image, business relations and financial situation. Where circumstances warrant, Alstom may seek civil or criminal prosecution and apply relevant internal measures.

The Code of Ethics serves as a guide to our standards and does not replace the Group Instructions, which outline the rules of conduct summarised in this document. All employees must refer to the operation rules relevant to their responsibilities detailed in the Group's "e-Book", compilation of the Group Instructions as well as the Sectors directives, available on the Alstom intranet site.

OUR CORE VALUES

We share three essential values - Trust, Team and Action - corresponding to the way in which the Group has defined its fundamental rules.

Trust

Alstom, with its activities, several management structures, units, production sites and countries, is by definition a complex company. Mutual trust between colleagues and management is essential for the proper conduct of our business and the efficient management of our projects.

This trust is built on the **responsibility** given to each decision-maker, the **delegation** of authority given and the **belief** of all employees in the importance of their role in the Group's well-being and development. It is also built on the **openness** of each individual to his or her professional environment, ensuring **transparency,** which is vital in the management of risks.

Team

Alstom's business is based on delivering projects which require our collective **discipline** and efforts to execute them successfully, and **networking** to ensure we take full advantage of all the competencies available. This team spirit, supported by the desire to **develop each employee,** extends to our collaboration with our partners and customers.

Action

Alstom commits to delivering products and services to its customers which meet their expectations in terms of price, quality and delivery schedules. To meet our commitments to our customers, action is a priority for all of us.

Action is built on **strategic thinking,** established at Group and Sector level, and underlined by our sense of **customer orientation,** integrated into our daily activities and into each project. Action involves adopting a **sense of urgency** in our activities, **speed of execution** to differentiate us from our competitors, and the ability to **report** ensuring the achievement of our business objectives. **Leadership** is essential to drive action.

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ALSTOM

SECTION B
PART B TECHNICAL PROPOSAL AND
STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

NOTE: The Authority reserves the right to audit compliance with respect to each of the required statements and certifications in the forms submitted by Offerors, including but not limited to the Domestic U.S. Content Certification, Domestic U.S. Content Worksheet, and Final Assembly of Production (Non-Pilot) Vehicles in Massachusetts.

Questions Concerning Eligibility

Provide short answers (and attach relevant documents) to the following questions and requests:

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.

   Attached.

2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.

   The sole shareholder of ALSTOM Transportation Inc. is ALSTOM Transport Holding US Inc. 212-551-7262.

3. Provide the names, title and telephone numbers of all officers.

Guillaume Mehlman	PRESIDENT	(212) 551-7262
Joseph Quigley	VICE PRESIDENT	(800) 717-4477
Scott Sherin	VICE PRESIDENT	(800) 717-4477
Stephanie Brun-Brunet	VICE PRESIDENT	(212) 551-7262
Alexandre-Pierre Mery	VICE PRESIDENT	(212) 551-7262
Derek Hurst	VICE PRESIDENT	(800) 717-4477
Frederic Matsoukis	TREASURER	(800) 717-4477
Richard D. Austin	SECRETARY	(865) 693-7550
Joseph Sce	ASSISTANT TREASURER	(860) 688-1911
Michael Tolpa	ASSISTANT TREASURER	(860) 688-1911
Stacey Joslin	ASSISTANT SECRETARY	(212) 551-7262

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.

Yes. ALSTOM Transportation Inc. has two contracts with MBTA as follows:

a. Formal Contract No. 674 for Midlife Overhaul of 74 Bi-Level Commuter Rail Coaches, RFP No. CAP 177-08, Technical Specification SR-43, dated [August 27, 2012]; and

b. Formal Contract No. 673 for Green Line Type 7 Selective Systems Overhaul, RFP No. CAP 77-09, Technical Specification VE-09-028, dated August 23, 2012.

5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.

No.

6. Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.

No.

7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.

BNSF Railway Company / ALSTOM Transportation Inc. Arbitration

On November 4, 2002, BNSF Railway Company ("**BNSF**") and ATI entered into a Maintenance Agreement for the maintenance of a fleet of 434 coal-hauling locomotives with a 12-year term starting from March 2003. On June 2009, BNSF made use of a clause under the contract allowing termination of contract without cause with a 30-day notice. A dispute arose thereafter between the parties on the exercise of this right and the level of compensation due to ATI as a result of such termination. This dispute was brought to an arbitration panel. On January 23, 2012, the arbitration panel issued its final award in favor of ATI and a motion to confirm this award was filed with the United States District Court for the Northern District of Texas. On November 7, 2013, the District Court denied the motion to confirm the arbitral award and the matter is now pending before the Fifth Circuit Court of Appeals.

[WMATA]

8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

James T. Haggerty
Senior Vice President
Marsh Casualty - Advisory Specialist
20 Church Street
Hartford, CT 06103
Direct Dial: (860) 723-5759
Main Reception Phone: (860) 723-5600
Fax: (212) 948-5235
Email:James.Haggerty@marsh.com

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

Information to be provided upon our receipt.

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?

No.

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity.

See attached Consolidated Financial Statements

12. Provide the business's current code of business ethics or equivalent.

Attached.

The Commonwealth of Massachusetts
Secretary of the Commonwealth
State House, Boston, Massachusetts 02133

William Francis Galvin
Secretary of the
Commonwealth

Date: March 03, 2014

To Whom It May Concern :

I hereby certify that according to the records of this office,

ALSTOM TRANSPORTATION INC.

a corporation organized under the laws of

NEW YORK

on **September 22, 1986** was qualified to do business in this Commonwealth on

April 11, 2001 under the provisions of the General Laws, and I further certify that said

corporation is still qualified to do business in this Commonwealth.

I also certify that said corporation is not delinquent in the filing of any annual reports required to

date.

In testimony of which,
I have hereunto affixed the
Great Seal of the Commonwealth
on the date first above written.

William Francis Galvin

Secretary of the Commonwealth

Certificate Number: 14036450580
Verify this Certificate at: http://corp.sec.state.ma.us/CorpWeb/Certificates/Verify.aspx
Processed by: tgr

ALSTOM

Consolidated financial statements

Year ended 31 March 2011

ALSTOM

CONSOLIDATED INCOME STATEMENTS

(in € million)	Note	Year ended 31 March 2011	Year ended 31 March 2010	Year ended 31 March 2009
SALES	(4)	**20,923**	**19,650**	**18,739**
Cost of sales		(16,938)	(15,982)	(15,225)
Research and development expenses	(5)	(703)	(558)	(586)
Selling expenses		(902)	(669)	(666)
Administrative expenses		(810)	(662)	(726)
INCOME FROM OPERATIONS	(4)	**1,570**	**1,779**	**1,536**
Other income	(6)	46	8	44
Other expense	(6)	(852)	(158)	(137)
EARNINGS BEFORE INTEREST AND TAXES	(4)	**764**	**1,629**	**1,443**
Financial income	(7)	57	59	122
Financial expense	(7)	(193)	(101)	(101)
PRE-TAX INCOME		**628**	**1,587**	**1,464**
Income tax charge	(8)	(141)	(385)	(373)
Share in net income of equity investments		3	3	27
NET PROFIT		**490**	**1,205**	**1,118**
Attributable to:				
- Equity holders of the parent		462	1,217	1,109
- Non controlling interests		28	(12)	9
Earnings per share (in €)	(9)			
- Basic earnings per share		1.57	4.21	3.87
- Diluted earnings per share		1.56	4.18	3.81

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in € million)	Year ended 31 March 2011	Year ended 31 March 2010	Year ended 31 March 2009
Net profit recognised in income statements	**490**	**1 205**	**1 118**
Net gains (losses) on cash flow hedges	(9)	(21)	25
Net gains (losses) on available-for-sale financial assets	12	-	-
Currency translation adjustments	(55)	94	(14)
Net actuarial gains (losses)	(183)	7	(319)
Taxes	93	55	12
Other comprehensive income	**(142)**	**135**	**(296)**
Total comprehensive income for the period	**348**	**1 340**	**822**
Attributable to:			
- Equity holders of the parent	330	1 354	811
- Non controlling interests	18	(14)	11

The accompanying notes are an integral part of these consolidated financial statements

ALSTOM

CONSOLIDATED BALANCE SHEETS

(in € million)	Note	At 31 March 2011	At 31 March 2010	At 31 March 2009
ASSETS				
Goodwill	(10)	5,396	3,904	3,886
Intangible assets	(10)	1,934	1,453	1,397
Property, plant and equipment	(11)	2,651	1,958	1,735
Associates and other investments	(12)	207	66	66
Other non-current assets	(13)	567	535	529
Deferred taxes	(8)	1 287	982	1,012
Total non-current assets		**12,042**	**8,898**	**8,625**
Inventories	(14)	3,363	3,033	2,876
Construction contracts in progress, assets	(15)	2,479	3,637	3,139
Trade receivables	(16)	6,053	3,446	3,873
Other current operating assets	(17)	2,945	2,578	2,773
Marketable securities and other current financial assets	(18)	50	35	15
Cash and cash equivalents	(25)	2,701	4,351	2,943
Total current assets		**17,591**	**17,080**	**15,619**
Total assets		**29,633**	**25,978**	**24,244**

(in € million)	Note	At 31 March 2011	At 31 March 2010	At 31 March 2009
EQUITY AND LIABILITIES				
Equity attributable to the equity holders of the parent	(20)	4,060	4,091	2,852
Non controlling interests		92	10	32
Total equity		**4,152**	**4,101**	**2,884**
Non-current provisions	(22)	1 095	460	444
Accrued pension and other employee benefits	(23)	1 145	943	970
Non-current borrowings	(24)	3,346	1,845	65
Non-current obligations under finance leases	(24)	491	527	543
Deferred taxes	(8)	88	113	70
Total non-current liabilities		**6,165**	**3,888**	**2,092**
Current provisions	(22)	1,387	1,181	1,226
Current borrowings	(24)	578	196	706
Current obligations under finance leases	(24)	51	46	42
Construction contracts in progress, liabilities	(15)	9,166	10,169	10,581
Trade payables		4,071	3,613	3,866
Other current operating liabilities	(26)	4,063	2,784	2,847
Total current liabilities		**19,316**	**17,989**	**19,268**
Total equity and liabilities		**29,633**	**25,978**	**24,244**

The accompanying notes are an integral part of these consolidated financial statements

ALSTOM

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in € million)	Note	Year ended 31 March 2011	31 March 2010	31 March 2009
Net profit		**490**	**1,205**	**1,118**
Depreciation, amortisation and expense arising from share-based payments		671	419	439
Post-employment and other long-term defined employee benefits		(150)	(41)	(156)
Net (gains)/losses on disposals of assets		70	(6)	4
Share in net income of associates (net of dividends received)		-	3	(24)
Deferred taxes charged to income statement		(107)	186	200
Net cash provided by operating activities - before changes in working capital		**974**	**1,766**	**1,581**
Changes in working capital resulting from operating activities	**(19)**	**(743)**	**(960)**	**555**
Net cash provided by /(used in) by operating activities		**231**	**806**	**2,136**
Proceeds from disposals of tangible and intangible assets		44	58	14
Capital expenditure (including capitalised R&D costs)	(5)	(791)	(679)	(671)
Decrease in other non-current assets		(1)	22	4
Acquisition of Grid (€- 2,351 million) net of cash acquired (€ 328 million)	(3)	(2,023)	-	-
Acquisitions of businesses, net of cash acquired		(242)	(12)	(40)
Disposals of businesses, net of net cash sold		(68)	(25)	36
Net cash used in investing activities		**(3,081)**	**(636)**	**(657)**
Capital increase		9	65	29
Treasury shares		-	(34)	-
Dividends paid including payments to non controlling interests		(378)	(333)	(233)
Issuance of bonds & notes	(24)	1,500	1,750	-
Repayment of bonds & notes issued	(24)	-	(275)	(559)
Changes in current and non-current borrowings		33	(12)	11
Changes in obligations under finance leases		(41)	(33)	(27)
Changes in marketable securities and other current financial assets and liabilities		57	(14)	162
Net cash provided by (used in) financing activities		**1,180**	**1,114**	**(617)**
Net increase/(decrease) in cash and cash equivalents		**(1,670)**	**1,284**	**862**
Cash and cash equivalents at the beginning of the period		4,351	2,943	2,115
Net effect of exchange rate variations		24	135	(27)
Other changes		(4)	(11)	(7)
Cash and cash equivalents at the end of the period		**2,701**	**4,351**	**2,943**
Income tax paid		*(248)*	*(191)*	*(192)*
Net of interest received and interest paid		*(107)*	*(29)*	*22*

(in € million)	Year ended 31 March 2011	31 March 2010	31 March 2009
Net cash/(debt) variation analysis (*)			
Changes in cash and cash equivalents	(1,670)	1,284	862
Changes in marketable securities and other current financial assets & liabilities	(57)	14	(162)
Changes in bonds and notes	(1,500)	(1,475)	559
Changes in current and non-current borrowings	(33)	12	(11)
Changes in obligations under finance leases	41	33	27
Net debt of acquired entities at acquisition date	(264)	-	(12)
Exercise of put option by Bouygues	-	175	-
Net effect of exchange rate variations and other	(25)	128	(116)
Decrease/ (increase) in net debt	(3,508)	-	-
Increase/ (decrease) in net cash	-	*171*	*1 147*
Net cash/(debt) at the beginning of the period	**2,222**	**2,051**	**904**
Net cash/(debt) at the end of the period	**(1,286)**	**2,222**	**2,051**

(*) The net cash/(debt) is defined as cash and cash equivalents, marketable securities and other current financial assets and non-current financial assets directly associated to liabilities included in financial debt (see Note 13), less financial debt (see Note 24).

The accompanying notes are an integral part of these consolidated financial statements

ALSTOM

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in € million, except for number of shares)	Number of outstanding shares	Capital	Additional paid-in capital	Retained earnings	Other comprehensive income	Equity attributable to the equity holders of the parent	Non controlling interests	Total equity
At 31 March 2008	**141,602,127**	**1,982**	**427**	**841**	**(1,040)**	**2,210**	**35**	**2,245**
Movements in other comprehensive income	-	-	-	-	(298)	(298)	2	(296)
Net income for the period	-	-	-	1,109	-	1,109	9	1,118
Total comprehensive income	-	-	-	1,109	(298)	811	11	822
Conversion of ORA	2,191,845	15	(13)	(2)	-	-	-	-
Change in scope and other	-	-	-	(3)	-	(3)	(7)	(10)
Dividends paid	-	-	-	(226)	-	(226)	(7)	(233)
Split of shares by two	142,163,766	-	-	-	-	-	-	-
Issue of ordinary shares under stock option plans	1,233,173	10	11	-	-	21	-	21
Recognition of equity settled share-based payments	462,792	6	-	33	-	39	-	39
At 31 March 2009	**287,653,703**	**2,013**	**425**	**1,752**	**(1,338)**	**2,852**	**32**	**2,884**
Movements in other comprehensive income	-	-	-	-	137	137	(2)	135
Net income for the period	-	-	-	1,217	-	1,217	(12)	1,205
Total comprehensive income	-	-	-	1,217	137	1,354	(14)	1,340
Conversion of ORA	1,211	-	-	-	-	-	-	-
Change in scope and other		-	-	(10)	-	(10)	1	(9)
Dividends paid	-	-	-	(323)	-	(323)	(9)	(332)
Capital reduction following acquisition of own shares	(700,000)	(5)	(29)	-	-	(34)	-	(34)
Issue of ordinary shares following the exercise of a put option by Bouygues	4,400,000	31	189	(45)	-	175	-	175
Issue of ordinary shares under stock option plans	1,394,775	10	19	-	-	29	-	29
Recognition of equity settled share-based payments	1,092,307	8	26	14	-	48	-	48
At 31 March 2010	**293,841,996**	**2,057**	**630**	**2,605**	**(1,201)**	**4,091**	**10**	**4,101**

(in € million, except for number of shares)	**Number of outstanding shares**	**Capital**	**Additional paid-in capital**	**Retained earnings**	**Other comprehensive income**	**Equity attributable to the equity holders of the parent**	**Non controlling interests**	**Total equity**
At 31 March 2010	**293,841,996**	**2,057**	**630**	**2,605**	**(1,201)**	**4,091**	**10**	**4,101**
Movements in other comprehensive income	-	-	-	-	(132)	(132)	(10)	(142)
Net income for the period	-	-	-	462	-	462	28	490
Total comprehensive income	-	-	-	462	(132)	330	18	348
Conversion of ORA	275	-	-	-	-	-	-	-
Change in scope and other		-	-	(24)	9	(15)	76	61
Dividends paid		-	-	(364)	-	(364)	(12)	(376)
Issue of ordinary shares under stock option plans	466,379	3	4	-	-	7	-	7
Recognition of equity settled share-based payments	110,654	1	(1)	11	-	11	-	11
At 31 March 2011	**294,419,304**	**2,061**	**633**	**2,690**	**(1,324)**	**4,060**	**92**	**4,152**

The accompanying notes are an integral part of these consolidated financial statements

ALSTOM

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ALSTOM

NOTE 1. PRESENTATION OF THE GROUP

Alstom ("the Group") serves the power generation market through its Power Sector, and the rail transport market through its Transport Sector. The Group designs, supplies, and services a complete range of technologically-advanced products and systems for its customers, and possesses a unique expertise in systems integration and through-life maintenance and services.

By its acquisition on 7 June 2010 of Areva T&D's transmission business, Alstom has completed a decisive stage in its development by forming a new sector, named Alstom Grid, to supplement the existing two sectors.

- ***Power***

Power provides steam turbines, gas turbines, wind turbines, generators and power plant engineering, as well as hydro equipments and systems. It also focuses on boilers, emissions control equipment in the power generation, as well as petrochemical and industrial markets, and serves demand for upgrades and modernisation of existing power plants. Finally, it provides service activities in all geographical markets.

- ***Transport***

Transport provides equipment, systems, and customer support for rail transportation activities, including passenger trains, locomotives, signalling equipment, rail components and services.

- ***Grid***

Grid provides equipment to transport electricity over long distances and manage the electrical networks . Its offering encompasses advanced technologies and expertise in key domains such as power electronics, ultra high voltage, direct current interconnections, integration of renewables into the grid and network management solutions.

The consolidated financial statements are presented in euro and have been authorised for issue by the Board of Directors held on 3 May 2011. In accordance with French legislation, they will be final once approved by the shareholders of Alstom at the Annual General Meeting convened for 28 June 2011.

ALSTOM

NOTE 2. ACCOUNTING POLICIES

2.1 Basis of preparation of the consolidated financial statements

Alstom consolidated financial statements for the year ended 31 March 2011 have been prepared:

- in accordance with the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) and endorsed by the European Union and whose application was mandatory as of 1 April 2010;
- using the same accounting policies and measurement methods as at 31 March 2010, with the exceptions of changes required by the enforcement of new standards and interpretations as described below.

The full set of standards endorsed by the European Union can be consulted on the website of the European Commission at:
http://ec.europa.eu/internal_market/accounting/ias/index-fr.htm

2.1.1.Changes in accounting policies due to new, revised or amended standards and interpretations mandatorily applicable for financial periods beginning on 1 April 2010

- ***Revised IFRS 3 – Business combinations***

Revised IFRS 3 is applicable prospectively to business combinations carried out on or after 1 April 2010.
The acquisition method (also known as purchase accounting method) is confirmed, but the following main changes have been introduced:

- Acquisition-related costs are recorded as an expense in the period in which they are incurred.
- Earn-outs are initially recorded at fair value and adjustments made beyond the 12-month measurement period following the acquisition are systematically recognised through profit or loss.
- For each business combination, any non controlling interest in the acquiree may be measured either at the acquisition-date fair value, leading to the recognition of the non controlling interest's share of goodwill (full goodwill method) or at the non controlling interest's proportionate share of the acquiree's identifiable net assets, resulting in recognition of only the share of goodwill attributable to equity holders of the parent (partial goodwill method).
- In case of a step-acquisition that leads to the Group acquiring control of the acquiree, the equity interest previously held by the Group is remeasured at its acquisition-date fair value and any resulting gain or loss is recognised in profit or loss.

* ***Revised IAS 27 – Consolidated and separate financial statements***

Under revised IAS 27, the consolidated financial statements of a group are presented as those of a single economic entity with two categories of owners: the owners of the parent and those of the owners of non-controlling interests in the subsidiaries of the group.
As a result of this new approach,

* Changes in ownership interest that do not result in the acquisition or loss of control of an entity do not affect profit or loss, but lead to a new allocation of equity between equity holders of the parent and non controlling interests.
* In absence of explicit agreements to the contrary, subsidiaries' losses are systematically allocated between equity holders of the parent and non controlling interests based on their respective ownership interests even if this results in the non controlling interests having a deficit balance.

* ***Other new, revised or amended standards and interpretations***

The Group's consolidated financial statements are not affected by the enforcement of the other new, revised, or amended standards and interpretations becoming effective in the European Union starting from 1 April 2010.

2.1.2.New standards and interpretations not yet mandatorily applicable

The Group has not opted for an early application in the consolidated financial statements at 31 March 2011 of the already released chapters of IFRS 9- Financial instruments, whose effective date is 1 April 2013, subject to endorsement by the European Union.
The Group's consolidated financial statements are not affected by other new, revised or amended standards or interpretations issued, but not yet mandatorily applicable.
At this stage, the Group considers that the impact of the implementation of these requirements cannot be determined with sufficient accuracy.

2.1.3.Reminder of IFRS 1 transition options

When preparing the opening balance sheet at transition date (1 April 2004), the Group has applied the following exemptions as authorised by IFRS 1:

* Business combinations: the Group elected not to apply retrospectively IFRS 3 to business combinations undertaken prior to 1 April 2004,
* Translation differences: all cumulative translation differences at 1 April 2004 have been transferred to the retained earnings.

2.2. Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make various estimates and to use assumptions regarded as realistic and reasonable. These estimates or assumptions could affect the value of the Group's assets, liabilities, equity, net income and contingent assets and liabilities at the closing date. Management reviews estimates on an ongoing basis using information currently available. Actual results may differ from those estimates due to changes in facts and circumstances.

The accounting policies most affected by the use of estimates are the following:

- **Revenue and margin recognition on construction and long-term service contracts and related provisions**

The Group recognises revenue and gross margin on construction and long-term service contracts using the percentage of completion method based on milestones; when a project review indicates a negative gross margin, the loss related to work not yet performed is immediately recognised.

Recognised revenue and margin are based on estimates of total expected contract revenue and cost, which are subject to revisions as the contract progresses. Total expected revenue and cost on a contract reflect management's current best estimate of the probable future benefits and obligations associated with the contract. Assumptions to calculate present and future obligations take into account current technology as well as the commercial and contractual positions, assessed on a contract-by-contract basis. The introduction of technologically-advanced products exposes the Group to risks of product failure significantly beyond the terms of standard contractual warranties applicable to suppliers of equipment only.

Obligations on contracts may result in penalties due to late completion of contractual milestones, or unanticipated costs due to project modifications, suppliers or subcontractors' failure to perform or delays caused by unexpected conditions or events. Warranty obligations are affected by product failure rates, material usage and service delivery costs incurred in correcting failures.

Although the Group makes individual assessments on contracts, there is a risk that actual costs related to those obligations may exceed initial estimates. Estimates of contract costs and revenues at completion in case of contracts in progress and estimates of provisions in case of completed contracts may then have to be re-assessed.

- **Estimate of provisions relating to litigations**

The Group identifies and analyses on a regular basis current litigations and measures, when necessary, provisions on the basis of its best estimate of the expenditure required to settle the obligation at the balance sheet date. These estimates take into account information available and different possible outcomes.

- **Valuation of deferred tax assets**

Management judgment is required to determine the extent to which deferred tax assets can be recognised. Future sources of taxable income and the effects of the Group global income tax strategies are taken into account in making this determination. This assessment is conducted through a detailed review of deferred tax assets by jurisdiction and takes into account past, current and future performance deriving from existing contracts in the order book, the budget and the three-year plan, and the length of carry back, carry forwards and expiry periods of net operating losses.

- **Measurement of post-employment and other long-term defined employee benefits**

The measurement of obligations and assets related to defined benefit plans makes it necessary to use several statistical and other factors that attempt to anticipate future events. These factors include assumptions about the discount rate, the expected return on plan assets, the rate of future compensation increases as well as withdrawal and mortality rates. If actuarial assumptions materially differ from actual results, it could result in a significant change in employee benefit expense recognised in the income statement, actuarial gains and losses recognised in equity and prepaid and accrued benefits.

- **Valuation of assets**

The discounted cash flow model used to determine the recoverable value of the groups of cash generating units to which goodwill is allocated includes a number of inputs including estimates of future cash flows, discount rates and other variables, and then requires significant judgment.

Impairment tests performed on intangible and tangible assets are also based on assumptions. Future adverse changes in market conditions or poor operating results from underlying assets could result in an inability to recover their current carrying value.

- **Inventories**

Inventories, including work in progress, are measured at the lower of cost or net realisable value. Write-down of inventories are calculated based on an analysis of foreseeable changes in demand, technology or market conditions in order to determine obsolete or excess inventories. If actual market conditions are less favourable than those projected, additional inventory write-downs may be required.

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2.3. Significant accounting policies

2.3.1. Consolidation methods

- **Subsidiaries**

Entities over which the Group exercises exclusive control are fully consolidated. Exclusive control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities, whether it holds shares or not.

Inter company balances and transactions are eliminated.

Results of operations of subsidiaries acquired or disposed of during the year are recognised in the consolidated income statements as from the date of acquisition or up to the date of disposal, respectively.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the equity attributable to the equity holders of the parent. Non-controlling interests consist of the amount of those interests at the date of the original business combination and their share of changes in equity since the date of the combination. In absence of explicit agreements to the contrary, subsidiaries' losses are allocated between equity holders of the parent and minority interests based on their respective ownership interests even if this results in the minority interests having a deficit balance.

- **Interests in joint ventures**

Entities over which the Group exercises joint control are consolidated according to the proportionate method whereby the Group's share of the joint ventures' results, assets and liabilities is recorded in the consolidated financial statements.

- **Investments in associates**

Entities in which the Group exercises significant influence but not control, are accounted for under the equity method.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost. The group's share of its associates' profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Losses of an associate in excess of the Group's interest in that associate are not recognised, except if the Group has a legal or implicit obligation.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

2.3.2. Sales and costs generated by operating activities

- **Measurement of sales and costs**

The amount of revenue arising from a transaction is usually determined by the contractual agreement with the customer. In the case of construction contracts, claims are considered in the determination of contract revenue only when it is highly probable that the claim will result in additional revenue and the amount can be reliably estimated.
Penalties are taken into account in reduction of contract revenue as soon as they are probable.

Production costs include direct costs (such as material, labour and warranty costs) and indirect costs. On the basis of the funding required for the execution of contracts, borrowing costs may be attributed to construction contracts whose execution period exceeds one year. Warranty costs are estimated on the basis of contractual agreement, available statistical data and weighting of all possible outcomes against their associated probabilities. Warranty periods may extend up to five years. Selling and administrative expenses are excluded from production costs.

- **Recognition of sales and costs**

Revenue on sale of manufactured products is recognised when the significant risks and rewards of ownership are transferred to the customer, which generally occurs on delivery. Revenue on short-term service contracts is recognised on performance of the related service. All production costs incurred or to be incurred in respect of the sale are charged to cost of sales at the date of recognition of sales.

Revenue on construction contracts and long-term service agreements is recognised based on the percentage of completion method: the stage of completion is assessed by milestones which ascertain the completion of a physical proportion of the contract work or the performance of services provided for in the agreement. The revenue for the period is the excess of revenue measured according to the percentage of completion over the revenue recognised in prior periods.

Cost of sales on construction contracts and long-term service agreements is computed on the same basis. The cost of sales for the period is the excess of cost measured according to the percentage of completion over the cost of sales recognised in prior periods. As a consequence, adjustments to contract estimates resulting from work conditions and performance are recognised in cost of sales as soon as they occur, prorated to the stage of completion.

When the outcome of a contract cannot be estimated reliably but the contract overall is expected to be profitable, revenue is still recognised based on milestones, but margin at completion is adjusted to nil.

When it is probable that contract costs at completion will exceed total contract revenue, the expected loss is recognised immediately as an expense.
Bid costs are directly recorded as expenses when a contract is not secured.

With respect to construction contracts and long-term service agreements, the aggregate amount of costs incurred to date *plus* recognised margin *less* progress billings is determined on a contract-by-contract basis. If the amount is positive, it is included as an asset designated as "Construction contracts in progress, assets". If the amount is negative, it is included as a liability designated as "Construction contracts in progress, liabilities".
The caption "Construction contracts in progress, liabilities" also includes down payments received from customers.

- **Recognition of overhead expenses**

Research expenditure is expensed as incurred. Development costs are expensed as incurred unless the project they relate to meets the criteria for capitalisation (see Note 2.3.9). Selling and administrative expenses are expensed as incurred.

2.3.3. Income from operations

Income from operations is the indicator used by the Group to present the level of operational performance that can be used as part of an approach to forecast recurring performance. This complies with the recommendation 2009-R03 of the CNC, the French standard setter, on the format of financial statements of entities applying IFRS.
Income from operations includes gross margin, research and development expenditure, selling and administrative expenses. It includes in particular the service cost of employee defined benefits, the cost of share-based payments and employee profit sharing, foreign exchange gains or losses associated with operating transactions and capital gains or losses on disposal of intangible and tangible assets arising from ordinary activities.

2.3.4. Other income and other expenses

Other income and expense are representative of items which are inherently difficult to predict due to their unusual, irregular or non-recurring nature.

Other income include capital gains on disposal of investments or activities and capital gains on disposal of tangible and intangible assets arising from activities disposed of or facing restructuring plans as well as any income associated to past disposals.

Other expenses include capital losses on disposal of investments or activities and capital losses on disposal of tangible and intangible assets arising from activities disposed of or facing restructuring plans as well as any costs associated to past disposals, restructuring costs, costs incurred to become business combinations effective and amortisation expense of assets exclusively acquired in the context of business combinations (margin in backlog, customer relationships, margin in inventory), significant impairment losses on assets, and a portion of post-employment and other long term defined benefit expense (amortisation of unrecognised prior service cost, impacts of curtailments and settlements and amortisation of actuarial gains and losses referring to long-term benefits other than post-employment benefits).

2.3.5. Financial income and expense

Financial income and expense include:

- Interest income representing the remuneration of the cash position;
- Interest expense related to the financial debt (financial debt consists of bonds, the debt component of compound instruments, other borrowings and lease-financing liabilities);
- Other expenses paid to financial institutions for financing operations;
- The financial component of the cost of employee defined benefits (interest cost and expected return on assets);
- Dividends received from non consolidated investments;
- Foreign exchange gains and losses associated with financing transactions;
- Other income or expense from cash and cash equivalents and marketable securities.

2.3.6. Translation of financial statements denominated in currencies other than euro

The Group's consolidated financial statements are presented in euros.

Functional currency is the currency of the primary economic environment in which a reporting entity operates, which in most cases, corresponds to the local currency. However, some reporting entities may have a functional currency different from local currency when that other currency is used for the entity's main transactions and faithfully reflects its economic environment.

Assets and liabilities of entities whose functional currency is other than the euro are translated into euro at closing exchange rate at the end of each reporting period while their income and cash flow statements are translated at the average exchange rate for the period. The currency translation adjustments resulting from the use of different currency rates for opening balance sheet positions, transactions of the period and closing balance sheet positions are recorded in other comprehensive income. Translation adjustments are transferred to the consolidated income statement at the time of the disposal of the related entity.

Goodwill and fair value adjustments arising from the acquisition of entities whose functional currency is not euro are designated as assets and liabilities of those entities and therefore denominated in their functional currencies and translated at the closing rate at the end of each reporting period.

2.3.7. Foreign currency transactions

Foreign currency transactions are initially recognised by applying to the foreign currency amount the spot exchange rate between the functional currency of the reporting unit and the foreign currency at the date of the transaction. Currency units held, assets to be received and liabilities to be paid resulting from those transactions are re-measured at closing exchange rates at the end of each reporting period. Realised exchange gains or losses at date of payment as well as unrealised gains or losses deriving from re-measurement are recorded within income from operations when they relate to operating activities or within financial income or expense when they relate to financing activities.

Since the Group is exposed to foreign currency volatility, the Group puts in place a significant volume of hedges to cover this exposure. These derivatives are recognised on the balance sheet at their fair value at the closing date. Providing that the relationships between the foreign currency exposure and the related derivatives are qualifying relationships, the Group uses the specific accounting treatments designated as hedge accounting. A relationship qualifies for hedge accounting if, at the inception of the hedge, it is formally designated and documented and if it proves to be highly effective throughout the financial reporting periods for which the hedge was designated.

Hedging relationships may be of two types:

- Cash flow hedge in case of hedge of the exposure to variability of cash flows attributable to highly probable forecast transactions;
- Fair value hedge in case of hedge of the exposure attributable to recognised assets, liabilities or firm commitments.

- **Cash flow hedge**

When cash flow hedge accounting applies, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the forecast transaction results in the recognition of a financial asset or liability, the amounts previously recognised directly in other comprehensive income are recycled into the income statement. When the forecast transaction results in the recognition of a non financial asset or liability (for instance, inventories or construction contracts in progress), the gain or loss that was directly recognised in equity is included in the carrying amount of the asset or liability.

- **Fair value hedge**

When fair value hedge accounting applies, changes in the fair value of derivatives and changes in the fair value of hedged items are both recognised in the income statement and offset each other up to the gain or loss on the effective portion on the hedging instrument.

Whatever the type of hedge, the ineffective portion on the hedging instrument is recognised in the income statement. Realised and unrealised exchange gains and losses on hedged items and hedging instruments are recorded within income from operations when they relate to operating activities or within financial income or expense when they relate to financing activities.

As the effective portion on the hedging instrument offsets the difference between the spot rate at inception of the hedge and the effective spot rate at the outcome of the hedge, sales and costs resulting from commercial contracts are recognised at the spot rate at inception of the hedge throughout the life of the related commercial contracts, provided that the corresponding hedging relationships keep on qualifying for hedge accounting.

The Group also uses export insurance policies to hedge its currency exposure on certain contracts during the open bid period as well as after the award of the contracts. During the bid period, the fair values of these insurance instruments cannot be reliably determined due to the uncertainty on the award of commercial contracts. As a consequence, at this stage, the instruments are not recognised on the balance sheet. When commercial contracts are awarded, insurance instruments are recognised and remeasured in the same way as foreign currency exchange forward contracts.

2.3.8. Goodwill

Goodwill arising from a business combination is measured as the difference between:

- the fair value of the consideration transferred for an acquiree plus the amount of any non-controlling interests of the acquiree; and
- the net fair value of the identifiable assets acquired and liabilities assumed at the acquisition date.

Initial estimates of consideration transferred and fair values of assets acquired and liabilities assumed are finalised within twelve months after the date of acquisition and any adjustments are accounted for as retroactive adjustments to goodwill. Beyond this twelve-month period, any adjustment is directly recognised in the income statement.

Goodwill is not amortised but tested for impairment at least annually at closing date.

2.3.9. Intangible assets

- **Acquired intangible assets**

Acquired intangible assets are initially measured at cost and amortised on a straight-line basis over their estimated useful lives. Useful lives can extend up to twenty years due to the long-term nature of the underlying contracts and activities. The amortisation expense of assets acquired through ordinary transactions is recorded in cost of sales, research and development expenditure, selling expenses or administrative expenses, based on the function of the underlying assets. The amortisation expense of assets exclusively acquired in the context of a business combination (margin in backlog, customer relationships) is recognised as other expense.

- **Internally generated intangible assets**

Development costs are capitalised if and only if the project they relate to meets the following criteria:

- The project is clearly defined and its related costs are separately identified and reliably measured,
- The technical feasibility of the project is demonstrated,
- The intention exists to complete the project and to use or sell it,
- Adequate technical and financial resources are available to complete the project,
- It is probable that the future economic benefits attributable to the project will flow to the Group.

Capitalised development costs are amortised on a straight-line basis over the estimated useful life of the asset. The amortisation charge is reported in research and development expenses.

2.3.10. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss. When an item of property, plant and equipment is made up of components with different useful lives, the total cost is allocated between the various components. Components are then separately depreciated.

Depreciation is computed using the straight-line method over the estimated useful lives of each component. The useful lives most commonly used are the following:

	Estimated useful life in years
Buildings	7-40
Machinery and equipment	3-20
Tools, furniture, fixtures and others	1-10

Useful lives are reviewed on a regular basis and changes in estimates, when relevant, are accounted for on a prospective basis. The depreciation expense is recorded in cost of sales, selling expenses or administrative expenses, based on the function of the underlying assets.

Borrowing costs that are attributable to an asset whose construction period exceeds one year are capitalised as part of the costs of the asset.

Property, plant and equipment acquired through finance lease arrangements or long-term rental arrangements that transfer substantially all the risks and rewards incidental to ownership are capitalised. They are recognised at their fair value at the inception of the lease, or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a financing obligation. Lease payments are apportioned between finance charges and repayment of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the term of the relevant lease, when shorter.

Leases that do not transfer substantially all risks and rewards incidental to ownership are classified as operating leases. Rentals payable are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised on a straight-line basis over the lease term.

2.3.11. Impairment of goodwill, tangible and intangible assets

Goodwill and intangible assets not yet available for use are tested for impairment at least annually or when there are indicators that they may be impaired. Other intangible assets and tangible assets are tested for impairment only if there are indicators of impairment.

The impairment test methodology is based on a comparison between the recoverable amount of an asset and its net carrying value. A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. If an asset does not generate cash inflows that are largely independent of other assets or groups of assets, the recoverable amount is determined at a cash-generating unit level.

For management purposes, goodwill acquired in a business combination is monitored at the level of Sectors as defined in Note 1: therefore goodwill is tested for impairment at the level of the group of cash-generating units constituting each Sector.

The recoverable amount is the higher of fair value less costs to sell and value in use. The valuation performed is based upon the Group's internal three-year business plan. Cash flows beyond this period are estimated using a perpetual long-term growth rate for the subsequent years. The recoverable amount is the sum of the discounted cash flows and the discounted terminal residual value. Discount rates are determined using the weighted-average cost of capital of each Sector.

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount and the impairment loss is recognised immediately in the income statement. In the case of goodwill allocated to a group of CGUs, the impairment loss is allocated first to reduce the carrying amount of goodwill and then to the other assets on a pro-rata basis of the carrying amount of each asset.

Impairment losses recognised in respect of goodwill cannot be reversed. The impairment losses recognized in respect of assets or cash-generating units may be reversed in a later period and recognized immediately in the income statement. The carrying amount is increased to the revised estimate of recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized in prior years.

2.3.12. Financial assets

- **Loans and deposits**

Loans are initially measured at their fair value, plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Deposits are reported as financial assets when their initial maturity is more than three months and as cash and cash equivalents in case of demand deposits or when the initial maturity is less than three months.

If there is any indication that those assets may be impaired, they are reviewed for impairment. Any difference between the carrying value and the impaired value (net realisable value) is recorded as a financial expense. The impairment loss can be reversed if the value is recovered in the future. In that case, the reversal of the impairment loss is reported as a financial income.

- **Investments and debt securities**

Investments in non consolidated companies are designated as available-for-sale financial assets. They are initially measured at their fair value, plus directly attributable transaction costs and subsequently re-measured at fair value.

A valuation model is used in case of unlisted securities. Changes in fair value are directly recognised in other comprehensive income until the security is disposed of or is determined to be impaired. On disposal or in case of significant or prolonged decline in the fair value, the cumulative gain or loss previously recognised in other comprehensive income is included in the profit or loss for the period. Unlike impairment losses recognised in respect of investments in a debt instrument, impairment losses recognised in respect of investments in equity instruments cannot be reversed through profit and loss.

When the fair value cannot be determined reliably, investments in non consolidated companies are measured at cost. Any impairment loss recognised for such investment is not reversed in a subsequent period, except when disposed of.

All debt securities that the Group has the expressed intention and ability to hold to maturity are designated as held-to-maturity financial assets. They are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect amounts expected not to be recoverable. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the investment's carrying value and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses may be reversed through profit and loss in subsequent periods.

Marketable securities are securities held for trading which cannot be considered as cash and cash equivalents. They are designated as financial asset at fair value through profit or loss. Changes in fair value are reported as financial income or expense.

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- **Derivative financial instruments**

Derivative financial instruments are recognised and re-measured at fair value (see Note 2.3.7 for foreign currency hedging instruments and Note 2.3.18 for interest rate hedging instruments).

- **Receivables**

Receivables are initially recognised at fair value, which in most cases approximates the nominal value. If there is any subsequent indication that those assets may be impaired, they are reviewed for impairment. Any difference between the carrying value and the impaired value (net realisable value) is recorded within income from operations. The impairment loss can be reversed if the value is recovered in the future. In that case, the reversal of the impairment loss is reported within income from operations.

2.3.13. Inventories

Raw materials and supplies, work in progress and finished products are stated at the lower of cost, using the weighted average cost method, or net realisable value. Inventory cost includes direct material and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.3.14. Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, which are subject to an insignificant risk of change in value.
Bank overdraft are shown within borrowings in current liabilities on the balance sheet.

2.3.15. Taxation

The group computes taxes in accordance with prevailing tax legislation in the countries where income is taxable.

The CVAE component (Cotisation sur la Valeur Ajoutée des Entreprises) of the new business tax (Contribution Economique Territoriale - CET) applicable in France as from January 1, 2010 is recognized as an income tax.

Temporary differences arising between the carrying amount and the tax base of assets and liabilities, unused tax losses and unused tax credits are identified for each taxable entity. Corresponding deferred taxes are calculated at the enacted or substantively enacted tax rates that are expected to apply in the period when the asset is realised or the liability settled.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available in the future against which the deductible differences, unused tax losses and unused tax credits can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of certain taxable temporary differences between the Group's share in the net assets in subsidiaries, joint ventures and associates and their tax bases. The most common situation when such exception applies relates to undistributed profits of subsidiaries where distribution to the shareholders would trigger a tax liability: when the Group has determined that profits retained by the subsidiary will not be distributed in the foreseeable future, no deferred tax liability is recognised.

Deferred tax assets and liabilities are offset when both of the following conditions are met:

- the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

Deferred tax is charged or credited to net income, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is classified in other comprehensive income.

2.3.16. Provisions

As long as a construction contract or a long-term service agreement is in progress, obligations attributable to such a contract are taken into account in the assessment of the margin to be recognised and are therefore reported within the accounts "Construction contracts in progress, assets" or "Construction contracts in progress, liabilities".

Upon completion of the contract, such obligations are recognised as distinct liabilities when they satisfy the following criteria:

- the Group has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of economic resources will be required to settle the obligation; and
- such outflow can be reliably estimated.

These liabilities are presented as provisions when they are of uncertain timing or amount. When this uncertainty is dispelled, they are presented as trade payables or other current liabilities.

Obligations resulting from transactions other than construction contracts and long-term service agreements are directly recognised as provisions as soon as the above-mentioned criteria are met.

Where the effect of the time value of money is material, provisions are measured at their present value.

Restructuring provisions are made when plans to reduce or close facilities, or to reduce the workforce have been finalised and approved by the Group management and have been announced before the balance sheet date, resulting in an obligation of the Group to third parties. Restructuring costs include employees' severance and termination benefits and estimated facility closing costs. In addition to such provisions, restructuring costs may include asset write-off relating to the restructured activities.

2.3.17. Financial liabilities

- **Bonds and borrowings**

Bonds and interest-bearing bank loans are initially recognised at fair value, less any transaction costs directly attributable to the issuance of the liability. These financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

- **Derivative financial instruments**

Derivative financial instruments are recognised and re-measured at fair value (see Note 2.3.7 for foreign currency hedging instruments and Note 2.3.18 for interest rate hedging instruments).

- **Payables**

Payables are initially recognised at fair value, which in most cases approximates the nominal value. They are subsequently re-measured at amortised cost.

2.3.18. Interest rate derivatives

The Group may enter into hedges for the purpose of managing its exposure to movements in interest rates. Derivatives are recognised on the balance sheet at fair value at the closing date. Providing that the relationships between the interest rate exposure and the related derivatives are qualifying relationships, the Group uses the specific accounting treatments designated as hedge accounting. Fair value hedge accounting and cash flow hedge accounting are applied to fixed and floating rate borrowings, respectively.

In the case of fair value hedge relationships, the re-measurement of the fixed rate borrowing is offset in the income statement by the movement in the fair value of the derivative up to the effective part of hedged risk. In the case of cash flow hedge relationships, the change in fair value of the derivative is recognised directly in equity. When the forecast transaction results in the recognition of a monetary item, the amounts previously recognised directly in equity are reclassified to the income statement.

2.3.19. Share-based payments

The Group issues equity-settled and cash-settled share-based payments to certain employees.

- **Equity-settled share-based payments**

Equity-settled share-based payments are measured at fair value at the grant date (excluding the effect of non market-based conditions) using the binomial pricing model. The cumulative recognised expense is based on the fair value at grant date and on the estimated number of shares that will eventually vest (including the effect of non market-based vesting conditions). It is recorded in income from operations throughout the vesting period with a counterpart in equity.

- **Cash-settled share-based payments**

For cash-settled share-based payments, a liability equal to the portion of the goods or services rendered is recognised at the current fair value determined at each balance sheet date.

The Group may also provide employees with the ability to purchase the Group's ordinary shares at a discounted price compared to that of the current market value. In that case, the Group records an expense based on the discount given and its estimate of the shares expected to vest.

2.3.20. Post-employment and other long-term defined employee benefits

The Group provides its employees with various types of post-employment benefits, such as pensions, retirement bonuses and medical care, and other long-term benefits, such as jubilee awards and deferred compensation schemes. The type of benefits offered to individual employees is related to local legal requirements as well as practices of the specific subsidiaries.

The Group's health care plans are generally contributory with participants' contributions adjusted annually.

- **Post-employment defined benefit plans**

For single employer defined benefit plans, the Group uses the Projected Unit Credit Method to determine the present value of its obligations and the related current and past service costs/profits. This method considers the actuarial assumptions' best estimates (for example, the expected turnover, the expected future salary increase and the expected mortality).

Most defined benefit pension liabilities are funded through pension funds legally distinct from the entities constituting the Group. Plan assets related to funded plans are invested mainly in equity and debt securities. Other supplemental pension plans sponsored by the Group for certain employees are directly paid by the employer as they become due. Post-employment medical benefit plans are predominantly unfunded.

The Group periodically reviews plan assets and obligations. The effects of any change in actuarial assumptions together with the differences between forecast and actual experience are assessed.

The Group recognises in other comprehensive income the full amount of any actuarial gains and losses as well as the effect of any asset ceiling.

The estimated cost of providing defined benefits to employees is accrued during the years in which the employees render services. In the income statement, the service cost is included in the income from operations. The amortisation of unrecognised prior service cost/profit and specific events impacts (e.g. curtailments) are recognised in other expenses. Interest cost and expected return on assets are included in financial income (expenses).

The Group also participates in multi-employer defined benefit plans, mainly in the United States and Canada. As corresponding funds are not able to provide sufficient information to use defined benefit accounting, these plans are accounted for as defined contribution plans (see below).

- **Post-employment defined contribution plans**

For defined contribution plans, the Group pays contributions to independently administered funds at a fixed percentage of employees' pay. These contributions are recorded as operating expenses.

- **Other long-term employee benefits**

The accounting method used when recognising obligations arising from other long-term employee benefits is similar to the method used for post-employment defined benefits, except that prior service cost and actuarial gains/losses are immediately recognised in full in "other income/expense" in the income statement.

2.3.21. Off balance sheet commitments

- **Commitments arising from execution of operations controlled by the Group**

In the ordinary course of business, the Group is committed to fulfil various types of obligations arising from customer contracts (among which full performance and warranty obligations). Obligations may also arise from leases and regulations in respect of tax, custom duties, environment, health and safety. These obligations may or may not be guaranteed by bonds issued by banks or insurance companies.

As the Group is in a position to control the execution of these obligations, a liability only arises if an obligating event (such as a dispute or a late completion) has occurred and makes it likely that an outflow of resources will occur.

When the liability is considered as only possible but not probable or, when probable, cannot be reliably measured, it is disclosed as a contingent liability.

When the liability is considered as probable and can be reliably measured, the impact on the financial statements is the following:

- if the additional liability is directly related to the execution of a customer contract in progress, the estimated gross margin at completion of the contract is reassessed; the cumulated margin recognised to date based on the percentage of completion and the accrual for future contract loss, if any, are adjusted accordingly,
- if the additional liability is not directly related to a contract in progress, a liability is immediately recognised on the balance sheet.

The contractual obligations of subcontractors towards the Group are of the same nature as those of the Group towards its customers. They may be secured by the same type of guarantees as those provided to the Group's customers.
No contingent asset is disclosed when the likelihood of the obligation of the third party remains remote or possible. A contingent asset is disclosed only when the obligation becomes probable.

Any additional income resulting from a third party obligation is taken into account only when it becomes virtually certain.

- **Commitments arising from execution of operations not wholly within the control of the Group**

Obligations towards third parties may arise from ongoing legal proceedings, credit guarantees covering the financial obligations of third parties in cases where the Group is the vendor, and indemnification guarantees issued in connection with disposals of business entities.

In case of legal proceedings, a contingent liability is disclosed when the liability is considered as only possible but not probable, or, when probable, cannot be reliably measured. In case of commitments arising from guarantees issued, contingent liabilities are disclosed as soon as guarantees have been delivered and as long as they have not matured.

A provision is recorded if the obligation is considered as probable and can be reliably measured.

Contingent assets arising from legal proceedings or guarantees delivered by third parties are only disclosed when they become probable.

2.3.22. Earnings per share

Basic earnings per share are computed by dividing the period net profit (loss) before the financial cost (net of tax) of bonds reimbursable with shares, by the weighted average number of outstanding shares during the period increased by the weighted average number of shares to be issued on reimbursement of bonds reimbursable with shares (“ORA”).

Diluted earnings per share are computed by dividing the period net profit (loss) before the financial cost (net of tax) of bonds reimbursable with shares, by the weighted average number of outstanding shares during the period adjusted in order to take into consideration all dilutive instruments (ORA, stock options, free shares).

2.3.23. Segment information

Operating segments used to present segment information are identified on the basis of internal reports used by the Chief Executive Officer (CEO) to allocate resources to the segments and assess their performance.

The Chief Executive Officer is the Group’s “chief operating decisions maker” within the meaning of IFRS 8.

The methods used to measure the key performance indicators of the segments for internal reporting purposes are the same as those used to prepare the consolidated financial statements.

NOTE 3. SCOPE OF CONSOLIDATION

3.1. Change in scope of consolidation

On 20 January 2010, Alstom and Schneider Electric, acting under a consortium agreement, signed an agreement with Areva with the purpose of acquiring its transmission and distribution activities ("Areva T&D"). Following the approvals from competition authorities, the closing of the acquisition took place on 7 June 2010 and the consortium acquired the entire capital of Areva T&D for an equity value of € 2,290 million and both partners of the consortium took over from Areva the financial debt refinancing of this company.

Alstom funded the equity value of the Transmission activities (€ 1,589 million) and refinanced the related debt of € 762 million.

The consortium agreement establishes that, at the closing date of the transaction, Transmission activities and Distribution activities are owned respectively by Alstom and Schneider Electric.
As a result, the Transmission activities have been fully consolidated since 7 June 2010 in the Group's financial statements, while the Distribution activities are totally excluded from the consolidation scope.

With this acquisition, the Group formed its third Sector, named Alstom Grid.

In accordance with IFRS 3 (revised), the Group has recognised the assets acquired and liabilities assumed, these being measured at fair value at the acquisition date.

Accordingly, a preliminary valuation has been determined as at 7 June 2010. Recognised assets and liabilities may be subsequently adjusted during a maximum of 12 months from the acquisition date, depending on new information obtained about the facts and circumstances existing at the acquisition date.

Preliminary fair values of the assets acquired and liabilities assumed of the Transmission activities at the date of acquisition:

(in € million)	Fair values
Intangible assets	512
Property plant & equipment	634
Associates & other investments	1
Other non current assets, net	16
Deferred tax	176
Total non-current assets	**1,339**
Inventories	725
Construction contracts in progress, assets	-
Trade receivables	1,920
Other current operating assets	564
Marketable securities and other current financial assets	-
Cash and cash Equivalents	328
Total current assets	**3,537**
Total assets	**4,876**
Non-current provisions	238
Accrued pensions and other employee benefits	181
Non-current borrowings	17
Non-current obligations under finance leases	7
Deferred tax	17
Total non-current liabilities	**459**
Current provisions	435
Current borrowings	1,058
Current obligations under finance leases	1
Construction contract in progress, liabilities	742
Trade payables	766
Other current operating liabilities	1,225
Total current liabilities	**4,227**
Total Liabilities	**4,687**
Net assets acquired	**189**
Fair value of assets and liabilities attributable to non controlling interests	75
Fair value of assets and liabilities attributable to the shareholders of the Group	**114**
Purchase price	1,589
Provisional goodwill	**1,475**

The valuation of assets acquired and liabilities assumed at their fair value has resulted in the recognition of new intangible assets (technology, order backlog margin and customer relationships) and the re-measurement of tangible assets, inventories and liabilities. Assets were valued by external independent experts.

The Group decided to measure the non-controlling interests at the non-controlling interests' proportionate share of the identifiable net assets of the Transmission activities.

The resulting and preliminary goodwill amounts to € 1,475 million and is mainly supported by the leadership position of Alstom Group in growing markets and by expected synergies between Grid and other Alstom activities in terms of portfolio strategy, in particular the unique positioning of the acquired businesses on the Smart Grid key markets and the international presence of the Transmission businesses.

Specific synergies with Power and Transport Sectors in the fields of cost reductions, comprehensive commercial offering and combined workforce and know-how resulted in an allocation of goodwill of € 293 million to Power and € 46 million to Transport. Therefore the goodwill allocated to Grid amounts to € 1,136 million.

For the period between the acquisition date (7 June 2010) and 31 March 2011, Alstom Grid contributed € 3,653 million to sales and € 218 million to income from operations. The contribution to EBIT includes acquisition costs for a total of € 44 million and amortisation of margin acquired, such as order backlog margin, inventory step-up and customer relationships, for a total of € 159 million. These impacts are recorded as other expense in the consolidated income statement.

Considering the complexity to properly allocate the past performance of the Transmission and Distribution activities to either Alstom or Schneider Electric, the Group is not in a position to trace such allocations prior to the acquisition date (as the two activities were not split) and thus to disclose the amounts of sales, income from operations and net income, had the acquisition taken place on 1 April 2010.

3.2. Acquisition in progress

On 1 March 2010, Alstom and Russian Transmasholding (TMH) firmed up the strategic partnership agreement that they had agreed on in March 2009. Alstom also signed a Share Purchase Agreement under the terms and conditions of which it acquires a 25% stake + 1 share in Transmashholding's parent company, Breakers Investment BV. Alstom's acquisition of a stake in Breakers Investment BV is on-going subject to the fulfilment of certain conditions.

NOTE 4. SEGMENT INFORMATION

4.1. KEY INDICATORS BY OPERATING SEGMENT

At 31 March 2011

(in € million)	Power	Transport	Grid	Corporate & others	Elimina-tions	Total
Sales	11,671	5,606	3,653	-	(7)	20,923
Inter Sector eliminations	(5)	(2)	-	-	7	-
Total Sales	**11,666**	**5,604**	**3,653**	**-**	**-**	**20,923**
Income (loss) from operations	1,052	398	218	(98)	-	1,570
Earnings (loss) before interest and taxes	**690**	**225**	**35**	**(186)**	**-**	**764**
Financial income (expense)						(136)
Income tax						(141)
Share in net income of equity investments						3
Net profit						**490**
Segment assets (1)	**13,646**	**4,595**	**5,891**	**1,006**	**-**	**25,138**
Deferred taxes (assets)						1,287
Prepaid employee defined benefit costs						28
Financial assets						3,180
Total assets						**29,633**
Segment liabilities (2)	**10,528**	**4,150**	**3,834**	**1,270**	**-**	**19,782**
Deferred taxes (liabilities)						88
Accrued employee defined benefit costs						1,145
Financial debt						4,466
Total equity						4,152
Total equity and liabilities						**29,633**
Capital employed (3)	**3,118**	**445**	**2,057**	**(264)**	**-**	**5,356**
Capital expenditure	**(413)**	**(206)**	**(126)**	**(46)**	**-**	**(791)**
Depreciation and amortisation in EBIT	**262**	**148**	**229**	**37**	**-**	**676**

(1) Segment assets are defined as the sum of goodwill, intangible assets, property, plant and equipment, associates and other investments, other non current assets (other than those related to financial debt and to employee defined benefit plans), inventories, construction contracts in progress assets, trade receivables and other operating assets.

(2) Segment liabilities are defined as the sum of non-current and current provisions, construction contracts in progress liabilities, trade payables and other operating liabilities.

(3) Capital employed corresponds to segment assets *minus* segment liabilities.

At 31 March 2010

(in € million)	Power	Transport	Corporate & others	Elimina-tions	Total
Sales	13,918	5,751	-	(19)	19,650
Inter Sector eliminations	(17)	(2)	-	19	-
Total Sales	**13,901**	**5,749**	**-**	**-**	**19,650**
Income (loss) from operations	1,468	414	(103)	-	1,779
Earnings (loss) before interest and taxes	**1,377**	**368**	**(116)**	**-**	**1,629**
Financial income (expense)					(42)
Income tax					(385)
Share in net income of equity investments					3
Net profit					**1,205**
Segment assets (1)	**13,953**	**5,239**	**959**	**-**	**20,151**
Deferred taxes (assets)					982
Prepaid employee defined benefit costs					8
Financial assets					4,837
Total assets					**25,978**
Segment liabilities (2)	**11,749**	**5,317**	**1,141**	**-**	**18,207**
Deferred taxes (liabilities)					113
Accrued employee defined benefit costs					943
Financial debt					2,614
Total equity					4,101
Total equity and liabilities					**25,978**
Capital employed (3)	**2,204**	**(78)**	**(182)**	**-**	**1,944**
Capital expenditure	**(428)**	**(199)**	**(52)**	**-**	**(679)**
Depreciation and amortisation in EBIT	**224**	**152**	**56**	**-**	**432**

(1) Segment assets are defined as the sum of goodwill, intangible assets, property, plant and equipment, associates and other investments, other non current assets (other than those related to financial debt and to employee defined benefit plans), inventories, construction contracts in progress assets, trade receivables and other operating assets.

(2) Segment liabilities are defined as the sum of non-current and current provisions, construction contracts in progress liabilities, trade payables and other operating liabilities.

(3) Capital employed corresponds to segment assets *minus* segment liabilities.

At 31 March 2009

(in € million)	Power	Transport	Corporate & others	Elimina-tions	Total
Sales	13,060	5,685	-	(6)	18,739
Inter Sector eliminations	(6)	-	-	6	-
Total Sales	**13,054**	**5,685**	**-**	**-**	**18,739**
Income (loss) from operations	1,248	408	(120)	-	1,536
Earnings (loss) before interest and taxes	**1,172**	**389**	**(118)**	**-**	**1,443**
Financial income (expense)					21
Income tax					(373)
Share in net income of equity investments					27
Net profit					**1,118**
Segment assets (1)	**13,640**	**5,172**	**1,009**	**-**	**19,821**
Deferred taxes (assets)					1,012
Prepaid employee defined benefit costs					4
Financial assets					3,407
Total assets					**24,244**
Segment liabilities (2)	**12,171**	**5,503**	**1,290**	**-**	**18,964**
Deferred taxes (liabilities)					70
Accrued employee defined benefit costs					970
Financial debt					1,356
Total equity					2,884
Total equity and liabilities					**24,244**
Capital employed (3)	**1,469**	**(331)**	**(281)**	**-**	**857**
Capital expenditure	**(407)**	**(229)**	**(35)**	**-**	**(671)**
Depreciation and amortisation in EBIT	**226**	**123**	**35**	**-**	**384**

(1) Segment assets are defined as the sum of goodwill, intangible assets, property, plant and equipment, associates and other investments, other non current assets (other than those related to financial debt and to employee defined benefit plans), inventories, construction contracts in progress assets, trade receivables and other operating assets.

(2) Segment liabilities are defined as the sum of non-current and current provisions, construction contracts in progress liabilities, trade payables and other operating liabilities.

(3) Capital employed corresponds to segment assets minus segment liabilities.

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4.2. KEY INDICATORS BY GEOGRAPHIC AREA

Sales by country of destination

	Year ended		
(in € million)	31 March 2011	31 March 2010	31 March 2009
Euro zone *(1)*	5,961	6,550	6,594
thereof France	*2,155*	*1 983*	*2,182*
Rest of Europe	3,392	3,261	3,111
North America	2,571	2,736	2,943
thereof USA	*1,753*	*2,176*	*2,508*
South & Central America	1,731	952	1,088
Asia / Pacific	3,788	2,251	2,557
Middle East / Africa	3,480	3,900	2,446
Total Group	**20,923**	**19,650**	**18,739**

(1) For the period ended 31 March 2009, euro zone comprises : Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal and Spain. Slovakia and Slovenia have been added for the period ended 31 March 2010. Estonia has been added for the period ended 31 March 2011.

Sales by country of origin

	Year ended		
(in € million)	31 March 2011	31 March 2010	31 March 2009
Euro zone *(1)*	8,209	10,104	8,647
thereof France	*4,247*	*5,151*	*4,046*
Rest of Europe	6,410	3,679	4,486
North America	2,265	2,631	2,862
thereof USA	*1,714*	*2,236*	*2,530*
South & Central America	1,090	767	655
Asia / Pacific	1,653	1,433	1,650
Middle East / Africa	1,296	1,036	439
Total Group	**20,923**	**19,650**	**18,739**

(1) For the period ended 31 March 2009, euro zone comprises : Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal and Spain. Slovakia and Slovenia have been added for the period ended 31 March 2010. Estonia has been added for the period ended 31 March 2011.

Non current assets by country of location

(in € million)	Year ended 31 March 2011	31 March 2010	31 March 2009
Euro zone *(1)*	3,438	1,641	1,576
thereof France (2)	*2,510*	*762*	*735*
Rest of Europe (3)	5,134	4,672	4,639
North America	741	541	412
thereof USA	*640*	*462*	*350*
South & Central America	142	66	48
Asia / Pacific	806	488	442
Middle East / Africa	37	50	41
Total Group	**10,298**	**7,458**	**7,158**

(1) For the period ended 31 March 2009, euro zone comprises : Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal and Spain. Slovakia and Slovenia have been added for the period ended 31 March 2010. Estonia has been added for the period ended 31 March 2011.
(2) This amount includes goodwill of Grid Sector.
(3) This amount mainly includes goodwill of Power Sector located in Switzerland.

4.3 INFORMATION ABOUT MAJOR CUSTOMERS

No external customer represents individually 10% or more of the Group's consolidated sales.

NOTE 5. RESEARCH AND DEVELOPMENT EXPENDITURE

(in € million)	Year ended 31 March 2011	31 March 2010	31 March 2009
Research and development expenses	**(703)**	**(558)**	**(586)**
Developments costs capitalised during the period (see Note 10.2)	(286)	(209)	(172)
Amortisation expense of capitalised development costs (see Note 10.2)	98	87	77
Amortisation of acquired technology (see Note 10.2)	67	67	60
Total research and development expenditure	**(824)**	**(613)**	**(621)**

Capitalisation of development costs relates mainly to the new generation of very high speed train (AGV^{TM}) for the Transport Sector and to carbon capture & storage technology for the Power Sector.

NOTE 6. OTHER INCOME AND OTHER EXPENSES

	Year ended		
(in € million)	31 March 2011	31 March 2010	31 March 2009
Capital gains on disposal of businesses (1)	-	7	35
Other (4)	46	1	9
Other income	**46**	**8**	**44**
Capital losses on disposal of businesses (1)	(33)	(36)	(80)
Restructuring costs (2)	(520)	(96)	(46)
Expenses exclusively incurred in the context of business combinations (3)	(203)	(7)	-
Other (4)	(96)	(19)	(11)
Other expense	**(852)**	**(158)**	**(137)**
Other income (expenses)	**(806)**	**(150)**	**(93)**

(1) Capital gains reported for the year ended 31 March 2009 originated from the disposal of non-consolidated investments in South Africa.
Capital losses mainly arose:

- *for the financial years ended 31 March 2011 and 31 March 2009, from adjustments on the disposal of the former Marine Sector; and*
- *for the year ended 31 March 2010, from a fine from competition authorities related to a business disposed of in a previous year.*

(2) In the last six months of the financial year ended 31 March 2011, the Group has started to adapt its footprint in order to address the lower demand in developed countries (Europe and USA) and the fast growth of its markets in emerging countries. Power and Transport plans respectively announced in October 2010 and March 2011 account for the largest part of the amount of restructuring costs recorded for the year ended 31 March 2011.

(3) This item comprises the costs incurred to effect the acquisition of Grid (€ 44 million for the year ended 31 March 2011, €7 million for the year ended 31 March 2010) and the amortisation of acquired margin related to Grid's acquisition during the year ended 31 March .

(4) Other income and other expense for the year ended 31 March 2011 mainly derive from components of the post-employment and other long term defined benefit expense (see Note 23), costs of legal proceedings that have arisen outside the ordinary course of business and non-recurring impairment losses on assets.

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NOTE 7. FINANCIAL INCOME (EXPENSE)

	Year ended		
(in € million)	31 March 2011	31 March 2010	31 March 2009
Interest income	49	51	107
Net financial income from employee defined benefit plans	-	-	5
Net exchange gain	-	-	4
Other financial income	8	8	6
Financial income	**57**	**59**	**122**
Interest expense	(135)	(58)	(78)
Net financial expense from employee defined benefit plans	(16)	(24)	-
Net exchange loss	(7)	(6)	-
Other financial expenses	(35)	(13)	(23)
Financial expense	**(193)**	**(101)**	**(101)**
Financial income (expense)	**(136)**	**(42)**	**21**
Out of which			
-financial income (expense) arising from financial instruments (see Note 25)	(120)	(18)	16

Interest income of €49 million represents the remuneration of the Group's cash positions over the period.

Interest expense of €(135) million represents the cost of the gross financial debt. The increase compared to last year is due to the issuance of new bonds mainly related to the acquisition of the Grid business (see Note 24).

Other financial expense of €(35) million incorporates fees and commitment fees paid on guaranteed facilities, syndicated loans and other financing facilities for € (25) million (€(13) million for the year ended 31 March 2010 and €(13) million for the year ended 31 March 2009).

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NOTE 8. TAXATION

8.1. ANALYSIS OF INCOME TAX CHARGE

The following table summarises the components of income tax charge for the years ended 31 March 2011, 2010, 2009:

	Year ended		
(in € million)	31 March 2011	31 March 2010	31 March 2009
Current income tax charge	(248)	(199)	(173)
Deferred income tax charge	107	(186)	(200)
Income tax charge	**(141)**	**(385)**	**(373)**
Effective tax rate	22%	24%	25%

The favourable geographical mix of income before taxes of the period ended 31 March 2011 has enabled the Group to decrease the effective tax rate to 22% for the period ended 31 March 2011 compared to 24% for the previous fiscal year.

8.2. EFFECTIVE INCOME TAX RATE

The following table provides a reconciliation from the income tax charge valued at the French statutory rate to the actual income tax charge for the years ended 31 March 2011, 2010 and 2009:

	Year ended		
(in € million)	31 March 2011	31 March 2010	31 March 2009
Pre-tax income	**628**	**1,587**	**1,464**
Statutory income tax rate of the parent company	34.43%	34.43%	34.43%
Expected tax charge	**(216)**	**(546)**	**(504)**
Impact of:			
- Difference between normal tax rate applicable in France and normal tax rate in force in jurisdictions outside France	41	130	124
- Transactions liable for reduced tax rate	104	(3)	-
- Changes in unrecognised deferred tax assets	(52)	71	96
- Changes in tax rates	10	(2)	(29)
- Additional tax expense (withholding tax, CVAE in France and IRAP in Italy)	(47)	(35)	(31)
- Permanent differences and other	19	-	(29)
Income tax charge	**(141)**	**(385)**	**(373)**
Effective tax rate	**22%**	**24%**	**25%**

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8.3. ANALYSIS OF DEFERRED TAX ASSETS AND LIABILITIES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table summarises the significant components of the Group's deferred tax assets and liabilities as of 31 March 2011 and 2010:

	At 31 March 2010		Change in P&L	Change in equity *(1)*	Acquisitions through business combinations	Translation adjustments and other changes	At 31 March 2011	
(in € million)	Deferred tax assets	Deferred tax liabilities					Deferred tax assets	Deferred tax liabilities
Differences between carrying amount and tax basis of tangible and intangible assets	178	(64)	(53)	-	13	(12)	166	(104)
Accruals for employee benefit costs not yet deductible	241	(3)	(17)	34	7	(2)	262	(2)
Provisions and other accruals not yet deductible	504	-	17	-	86	(4)	603	-
Differences in recognition of margin on construction contracts	100	(397)	(49)	-	(4)	2	47	(395)
Tax loss carry forwards	1,266	-	223	-	63	(22)	1,530	-
Other	76	(204)	38	-	40	7	141	(184)
Gross deferred tax assets/(liabilities)	**2,365**	**(668)**	**159**	**34**	**205**	**(31)**	**2,749**	**(685)**
Unrecognised deferred tax assets	(828)	-	(52)	59	(45)	1	(865)	-
Netting	(555)	555	-	-	-	-	(597)	597
Recognised deferred tax assets/(liabilities)	**982**	**(113)**	**107**	**93**	**160**	**(30)**	**1,287**	**(88)**
Net deferred tax assets/(liabilities)	**869**						**1,199**	

(1) Mainly related to actuarial gains and losses directly recognised in equity (see consolidated statement of comprehensive income).

The Group is satisfied as to the recoverability of its recognised deferred tax assets at 31 March 2011 (€1,199 million) on the basis of an extrapolation of the last three-year business plan, as approved by the Board of Directors.

Deferred tax assets still unrecognised amount to €865 million at 31 March 2011 (€828 million at 31 March 2010). Most of these unrecognised deferred taxes are originated from tax loss carry forward, out of which €452 million are not subject to expiry at 31 March 2011 (€360 million at 31 March 2010).

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NOTE 9. EARNINGS PER SHARE

9.1. EARNINGS

	Year ended		
(in € million)	31 March 2011	31 March 2010	31 March 2009
Net profit attributable to equity holders of the parent	462	1,217	1,109
Financial interests related to bonds reimbursable with shares, net of tax	-	-	(1)
Earnings used to calculate basic and diluted earnings per share	**462**	**1,217**	**1,108**

9.2. NUMBER OF SHARES

	Year ended		
	31 March 2011	31 March 2010	31 March 2009
Weighted average number of ordinary shares used to calculate basic earnings per share	**294,210,753**	**289,234,516**	**286,787,449**
Effect of dilutive instruments other than bonds reimbursables with shares:			
- Stock options and performance shares (1)	2,537,173	1,936,644	3,290,001
- Free shares	230,089	240,293	1,332,599
Weighted average number of ordinary shares used to calculate diluted earnings per share	**296,978,014**	**291,411,453**	**291,410,049**

(1) Stock options taken into consideration in the calculation of the diluted earnings per share only relate to plans 7, 8 and 9, plans 10, 11, 12 and 13 being out of the money as at 31 March 2011.

9.3. EARNINGS PER SHARE

	Year ended		
(in €)	31 March 2011	31 March 2010	31 March 2009
- Basic earnings per share	1.57	4.21	3.87
- Diluted earnings per share	1.56	4.18	3.81

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NOTE 10. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets are reviewed for impairment at least annually and whenever events or circumstances indicate that they might be impaired. Such events or circumstances are related to significant, unfavourable changes that are of a lasting nature and affect either the economic environment or the assumptions or the targets adopted as of the acquisition date. An impairment loss is recognised when the recoverable value of the assets tested becomes durably lower than their carrying value.

10.1. GOODWILL

(in € million)	At 31 March 2010	Acquisitions	Disposals	Translation adjustments and other changes	At 31 March 2011
Power	3,381	291	-	(4)	3,668
Transport	523	46	-	(1)	568
Grid	-	1,162	-	(2)	1,160
Goodwill	**3,904**	**1,499**	**-**	**(7)**	**5,396**
of which:					
Gross value	3,904	1,499	-	(7)	5,396
Impairment	-	-	-	-	-

(in € million)	At 31 March 2009	Acquisitions	Disposals	Translation adjustments and other changes	At 31 March 2010
Power	3,368	-	-	13	3,381
Transport	518	-	-	5	523
Goodwill	**3,886**	**-**	**-**	**18**	**3,904**
of which:					
Gross value	3,886	-	-	18	3,904
Impairment	-	-	-	-	-

The movements of the period ended 31 March 2011 mainly arose from the acquisition of Grid business (see Note 3). This goodwill is calculated on a preliminary basis as at 31 March 2011.

The impairment test at 31 March 2011 supported the Group's opinion that goodwill is not impaired.

The main assumptions used to assess the recoverable amounts of goodwill are as follows:

	Power	Transport	Grid
Net carrying amount of goodwill at 31 March 2011 (in € million)	3,668	568	1,160
Value elected as representative of the recoverable value	value in use	value in use	value in use
Number of years over which cash flow estimates are available	3 years	3 years	3 years
Extrapolation period of cash flow estimates	2 years	2 years	2 years
Long term growth rate at 31 March 2011	**2.0%**	**1.5%**	**2.0%**
Long term growth rate at 31 March 2010	2.0%	1.5%	-
Long term growth rate at 31 March 2009	2.0%	2.0%	-
After tax discount rate at 31 March 2011 ***(1)***	**9.0%**	**9.0%**	**9.0%**
After tax discount rate at 31 March 2010 *(1)*	9.0%	9.0%	-
After tax discount rate at 31 March 2009 *(1)*	10.0%	10.0%	-

(1) The application of pre-tax discount rates to pre-tax cash flows leads to the same valuation of cash generating units.

Sensitivity of enterprise values to key assumptions can be presented as follows:

(in € million)	Power		Transport		Grid	
	-100 bp	*+100 bp*	*-100 bp*	*+100 bp*	*-100 bp*	*+100 bp*
After tax discount rate	2,072	(1,555)	516	(393)	575	(430)
	-50 bp	*+50 bp*	*-50 bp*	*+50 bp*	*-50 bp*	*+50 bp*
Long-term growth rate	(611)	707	(192)	168	(213)	246

At 31 March 2011, a sensitivity analysis based on such key assumptions demonstrates that there is no probable scenario according to which the recoverable amount of the CGU would become less than its carrying value.

10.2. INTANGIBLE ASSETS

(in € million)	At 31 March 2010	Additions / disposals / amortisation	Acquisitions through business combinations	Translation adjustments and other changes	At 31 March 2011
Development costs	1,112	286	2	(5)	1,395
Acquired technology	1,245	1	172	4	1,422
Other intangible assets	277	35	338	28	678
Gross value	**2,634**	**322**	**512**	**27**	**3,495**
Development costs	(452)	(98)	-	1	(549)
Acquired technology	(575)	(93)	-	-	(668)
Other intangible assets	(154)	(159)	-	(31)	(344)
Accumulated amortisation and impairment	**(1,181)**	**(350)**	**-**	**(30)**	**(1,561)**
Development costs	660	188	2	(4)	846
Acquired technology	670	(92)	172	4	754
Other intangible assets	123	(124)	338	(3)	334
Net value	**1,453**	**(28)**	**512**	**(3)**	**1,934**

(in € million)	At 31 March 2009	Additions / disposals / amortisation	Acquisitions through business combinations	Translation adjustments and other changes	At 31 March 2010
Development costs	907	209	-	(4)	1,112
Acquired technology	1,244	-	-	1	1,245
Other intangible assets	240	23	-	14	277
Gross value	**2,391**	**232**	**-**	**11**	**2,634**
Development costs	(363)	(87)	-	(2)	(452)
Acquired technology	(508)	(67)	-	-	(575)
Other intangible assets	(123)	(27)	-	(4)	(154)
Accumulated amortisation and impairment	**(994)**	**(181)**	**-**	**(6)**	**(1,181)**
Development costs	544	122	-	(6)	660
Acquired technology	736	(67)	-	1	670
Other intangible assets	117	(4)	-	10	123
Net value	**1,397**	**51**	**-**	**5**	**1,453**

The movements of the period ended 31 March 2011 are mainly due to the recognition of technology, order backlog margin and customer relationships as assets acquired in the Grid business combination (see Note 3).

Technology and licence agreements acquired through the combination with ABB ALSTOM POWER in 1999 and 2000 represent the bulk of the gross amount reported as acquired technology at 31 March 2010.

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NOTE 11. PROPERTY, PLANT AND EQUIPMENT

(in € million)	At 31 March 2010	Acquisitions/ Depreciation/ Impairments	Disposals	Acquisitions through business combinations	Translation adjustments and other changes	At 31 March 2011
Land	126	11	(7)	64	3	197
Buildings	1,263	83	(84)	223	127	1,612
Machinery and equipment	2,325	151	(95)	239	96	2,716
Constructions in progress	340	164	(7)	68	(303)	262
Tools, furniture, fixtures and other	469	68	(49)	40	10	538
Gross value	**4,523**	**477**	**(242)**	**634**	**(67)**	**5,325**
Land	(5)	(2)	-	-	(2)	(9)
Buildings	(579)	(77)	65	-	(12)	(603)
Machinery and equipment	(1,641)	(183)	83	-	26	(1,715)
Constructions in progress	-	-	-	-	-	-
Tools, furniture, fixtures and other	(340)	(62)	44	-	11	(347)
Accumulated depreciation and impairment	**(2,565)**	**(324)**	**192**	**-**	**23**	**(2,674)**
Land	121	9	(7)	64	1	188
Buildings	684	6	(19)	223	115	1,009
Machinery and equipment	684	(32)	(12)	239	122	1,001
Constructions in progress	340	164	(7)	68	(303)	262
Tools, furniture, fixtures and other	129	6	(5)	40	21	191
Net value	**1,958**	**153**	**(50)**	**634**	**(44)**	**2,651**

(in € million)	At 31 March 2009	Acquisitions/ Depreciation/ Impairments	Disposals	Changes in scope of consolidation	Translation adjustments and other changes	At 31 March 2010
Land	121	3	(1)	-	3	126
Buildings	1,161	69	(53)	(1)	87	1,263
Machinery and equipment	2,116	161	(89)	(1)	138	2,325
Constructions in progress	342	145	(4)	-	(143)	340
Tools, furniture, fixtures and other	437	53	(45)	-	24	469
Gross value	**4,177**	**431**	**(192)**	**(2)**	**109**	**4,523**
Land	(5)	-	-	-	-	(5)
Buildings	(566)	(52)	42	-	(3)	(579)
Machinery and equipment	(1,547)	(144)	82	1	(33)	(1,641)
Constructions in progress	-	-	-	-	-	-
Tools, furniture, fixtures and other	(324)	(48)	41	-	(9)	(340)
Accumulated depreciation and impairment	**(2,442)**	**(244)**	**165**	**1**	**(45)**	**(2,565)**
Land	116	3	(1)	-	3	121
Buildings	595	17	(11)	(1)	84	684
Machinery and equipment	569	17	(7)	-	105	684
Constructions in progress	342	145	(4)	-	(143)	340
Tools, furniture, fixtures and other	113	5	(4)	-	15	129
Net value	**1,735**	**187**	**(27)**	**(1)**	**64**	**1,958**

The net value of tangible assets held under finance leases and included in the above data is as follows:

(in € million)	At 31 March 2011	At 31 March 2010	At 31 March 2009
Land	13	13	13
Buildings	77	88	98
Machinery and equipment	7	7	9
Tools, furniture, fixtures and other	15	18	17
Net value of tangible assets held under finance leases	**112**	**126**	**137**

Commitments to purchase fixed assets amount to €85 million at 31 March 2011. They notably arise from the construction of a new facility in the United States of America for the manufacturing of steam and gaz turbines.

NOTE 12. ASSOCIATES AND NON CONSOLIDATED INVESTMENTS

12.1. ASSOCIATES

(in € million)	At 31 March 2011	At 31 March 2010	At 31 March 2009	% interest
Shanghai Alstom Transportation Company (SATCO)	10	10	14	40.0%
Cerrey - Babcock & Wilcox de Mexico	17	17	13	25.0%
Alstom Atomenergomash	12	13	9	49.0%
Other	4	3	3	-
Total	**43**	**43**	**39**	**-**

(in € million)	Closing date	Total assets at closing date	Total liabilities at closing date	Total revenues	Total net profit (loss)
Shanghai Alstom Transportation Company (SATCO)	31 December	73	48	59	6
Cerrey - Babcock & Wilcox de Mexico (1)	31 December	167	101	117	7
Alstom Atomenergomash	31 March	93	8	-	(1)

(1) Financial statements of year end closing 31 December 2010 are not yet available. Financial statements of year end closing 31 December 2009 are disclosed.

12.2. NON CONSOLIDATED INVESTMENTS

(in € million)		At 31 March 2011		At 31 March 2010	At 31 March 2009	2011
	Gross	Impairment	Net	Net	Net	% interest
Bright Source Energy	110	-	110	-	-	17,80%
Shanghai Lingang Transformers (1)	26	-	26	-	-	50.00%
Tramvia Metropolita SA	5	-	5	5	8	25.35%
Tramvia Metropolita del Besos	3	-	3	3	3	15.20%
Other *(2)*	27	(7)	20	15	16	-
Total	**171**	**(7)**	**164**	23	27	

(1) This entity was acquired during the financial year 2010-2011 and the accounting treatment is still under review.

(2) No other investments net value exceeds €3 million.

Changes in fair value occurred during the financial year ended 31 March 2011 amount to € 12 million and have been recorded in other comprehensive income as gains on available for sale financial assets.

NOTE 13. OTHER NON-CURRENT ASSETS

(in € million)	At 31 March 2011	At 31 March 2010	At 31 March 2009
Financial non-current assets associated to financial debt (1)	429	450	449
Long-term loans, deposits and other	138	85	80
Other non-current assets	**567**	**535**	**529**

(1) These non-current assets relate to a long-term rental of trains and associated equipment to a London metro operator (see Notes 24 and 29). They are made up as follows:
- At 31 March 2011, €405 million receivables and €24 million deposit ;
- At 31 March 2010, €427 million receivables and €23 million deposit;
- At 31 March 2009, €429 million receivables and €20 million deposit.

NOTE 14. INVENTORIES

(in € million)	At 31 March 2011	At 31 March 2010	At 31 March 2009
Raw materials and supplies	944	932	1,019
Work in progress	2,461	2,116	1,995
Finished products	377	303	147
Inventories, gross	**3,782**	**3,351**	**3,161**
Raw materials and supplies	(166)	(112)	(91)
Work in progress	(168)	(176)	(170)
Finished products	(85)	(30)	(24)
Write-down	**(419)**	**(318)**	**(285)**
Inventories, net	**3,363**	**3,033**	**2,876**

Changes in inventory write-down recognised as expense for the year ended 31 March 2011 amount to € 26 million (€ 32 million expense for the year ended 31 March 2010, € 20 million income for the year ended 31 March 2009)

NOTE 15. CONSTRUCTION CONTRACTS IN PROGRESS

(in € million)	At 31 March 2011	At 31 March 2010	Variation	At 31 March 2009
Construction contracts in progress, assets	2,479	3,637	(1,158)	3,139
Construction contracts in progress, liabilities	(9,166)	(10,169)	1,003	(10,581)
Construction contracts in progress	**(6,687)**	**(6,532)**	**(155)**	**(7,442)**

(in € million)	At 31 March 2011	At 31 March 2010	Variation	At 31 March 2009
Contract costs incurred *plus* recognised profits *less* recognised losses to date	48,228	51,577	(3,349)	46,180
Less progress billings	(50,839)	(54,345)	3,506	(49,258)
Construction contracts in progress excluding down payments received from customers	**(2,611)**	**(2,768)**	**157**	**(3,078)**
Down payments received from customers	(4,076)	(3,764)	(312)	(4,364)
Construction contracts in progress	**(6,687)**	**(6,532)**	**(155)**	**(7,442)**

NOTE 16. TRADE RECEIVABLES

(in € million)	Total	No past due on the reporting date	Past due on the reporting date: Less than 60 days	Between 60 and 180 days	More than 180 days
Trade receivables at 31 March 2011	**6,053**	5,037	312	258	446
o/w gross	6,170	5,101	313	259	497
o/w impairment	(117)	(64)	(1)	(1)	(51)
Trade receivables at 31 March 2010	**3,446**	2,624	354	156	312
o/w gross	3,531	2,648	355	157	371
o/w impairment	(85)	(24)	(1)	(1)	(59)
Trade receivables at 31 March 2009	**3,873**	3,025	393	278	177
o/w gross	3,952	3,045	396	280	231
o/w impairment	(79)	(20)	(3)	(2)	(54)

Impairment losses are determined considering the risk of non recovery assessed on a case by case basis. Due to the type of business operated by the Group, past due receivables are frequently representative of outstanding amounts confirmed by customers but whose payment is subject to clearance of items raised during inspection of works. Such receivables do remain fully recoverable; costs to be incurred for the clearance of pending items are included in the determination of the margin at completion of the related contracts.

NOTE 17. OTHER CURRENT OPERATING ASSETS

(in € million)	At 31 March 2011	At 31 March 2010	At 31 March 2009
Down payments made to suppliers	560	554	611
Corporate income tax	51	73	67
Other taxes	709	589	485
Prepaid expenses	329	137	142
Other receivables	418	457	421
Derivatives relating to operating activities (see Note 25)	365	318	342
Remeasurement of hedged firm commitments in foreign currency	513	450	705
Other current operating assets	**2,945**	**2,578**	**2,773**

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NOTE 18. MARKETABLE SECURITIES AND OTHER CURRENT FINANCIAL ASSETS

(in € million)	At 31 March 2011	At 31 March 2010	At 31 March 2009
Derivatives related to financing activities	33	31	10
Marketable securities	17	4	5
Marketable securities and other current financial assets	**50**	**35**	**15**

NOTE 19. WORKING CAPITAL

Balance sheet positions

(in € million)	At 31 March 2011	At 31 March 2010	Variation	At 31 March 2009
Inventories	3,363	3,033	330	2,876
Construction contracts in progress, assets	2,479	3,637	(1,158)	3,139
Trade receivables	6,053	3,446	2,607	3,873
Other current operating assets	2,945	2,578	367	2,773
Assets	**14,840**	**12,694**	**2,146**	**12,661**
Non-current provisions	1,095	460	635	444
Current provisions	1,387	1,181	206	1,226
Construction contracts in progress, liabilities	9,166	10,169	(1,003)	10,581
Trade payables	4,071	3,613	458	3,866
Other current operating liabilities	4,063	2,784	1,279	2,847
Liabilities	**19,782**	**18,207**	**1,575**	**18,964**
Working capital	**(4,942)**	**(5,513)**	**571**	**(6,303)**

Analysis of variation in working capital

(in € million)	Year ended 31 March 2011	Year ended 31 March 2010
Working capital at the beginning of the period	**(5,513)**	**(6,303)**
Changes in working capital resulting from operating activities (*)	743	960
Changes in working capital resulting from investing activities (**)	97	1
Translation adjustments and other changes	(269)	(171)
Total changes in working capital	**571**	**790**
Working capital at the end of the period	**(4,942)**	**(5,513)**

(*) Item presented within "net cash provided by operating activities" in the consolidated statement of cash flows
(**) Item presented within "net cash used in investing activities" in the consolidated statement of cash flows

NOTE 20. EQUITY

When managing capital, the objective of the Group is to safeguard its ability to continue as a going concern so that it can provide returns to shareholders, bring benefits to its other partners and optimise the structure of the capital in order to reduce its cost. To achieve this, the Group may choose to:

- adjust the amount of dividends paid to the shareholders;
- reimburse a portion of capital;
- issue new shares; or,
- sell assets in order to scale back its net debt.

20.1. MOVEMENTS IN SHARE CAPITAL

Movements in financial year ended 31 March 2011

At 31 March 2011, the share capital of Alstom amounted to € 2,060,935,128 consisting of 294,419,304 ordinary shares with a par value of €7 each. For the year ended 31 March 2011, the weighted average number of outstanding ordinary shares amounted to 294,210,753 and the weighted average number of ordinary and dilutive shares stood at 296,978,014.

During the year ended 31 March 2011, 4,380 bonds reimbursable in shares "Obligations Remboursables en Actions" were converted into 275 shares at a par value of €7. The 81,682 bonds reimbursable with shares outstanding at 31 March 2011 represent 5,130 shares to be issued.

Movements in financial year ended 31 March 2010

At 31 March 2010, the share capital of Alstom amounted to € 2,056,893,972 consisting of 293,841,996 ordinary shares with a par value of €7 each. For the year ended 31 March 2010, the weighted average number of outstanding ordinary shares amounted to 289,234,516 and the weighted average number of ordinary and dilutive shares stood at 291,411,453.

During the year ended 31 March 2010, 19,209 bonds reimbursable in shares "Obligations Remboursables en Actions" were converted into 1,211 shares at a par value of €7. The 86,062 bonds reimbursable with shares outstanding at 31 March 2010 represented 5,405 shares to be issued.

In March 2010, 4,400,000 shares have been issued to Bouygues, Alstom main shareholder. This issuance of shares extinguishes a financial debt that arose from a put option granted by Alstom to Bouygues in 2006 (see Note 24).

In June 2009, ALSTOM acquired 700,000 of its own shares for a total amount of €34 million. These shares have subsequently been cancelled.

In April 2009, 1,092,111 new shares have been created, following the implementation of the employee profit sharing plan " ALSTOM sharing 2009" (see Note 21) .

Movements in financial year ended 31 March 2009

At 31 March 2009, the share capital of ALSTOM amounted to €2,013,575,921 consisting of 287,653,703 ordinary shares with a par value of €7 each (on 7 July 2008, the nominal value of ALSTOM shares was split by two). For the year ended 31 March 2009, the weighted average number of outstanding ordinary shares amounted to 286,787,449 and the weighted average number of ordinary and dilutive shares stood at 291,410,049.

During the year ended 31 March 2009, 34,901,161 bonds reimbursable in shares "Obligations Remboursables en Actions" were converted into 2,191,845 shares at a par value of €7. The 105,271 bonds reimbursable with shares outstanding at 31 March 2009 represented 6,611 shares to be issued.

20.2. DISTRIBUTION OF DIVIDENDS

In respect of the financial year ended 31 March 2011, it will be proposed to the Shareholders' meeting called on 28 June 2011 to distribute dividends for a total amount of €183 million corresponding to a €0,62 dividend per share.

The following dividends were distributed in respect of the previous three financial years:

- year ended 31 March 2010 (decision of Shareholders' meeting held on 22 June 2010): total amount of €364 million, corresponding to a €1,24 dividend per share;
- year ended 31 March 2009 (decision of Shareholders' meeting held on 23 June 2009): total amount of €323 million, corresponding to a €1,12 dividend per share;
- year ended 31 March 2008 (decision of Shareholders' meeting held on 24 June 2008): total amount of €226 million, corresponding to a €0,80 dividend per share (after the two-for-one stock split that took place on 7 July 2008).

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NOTE 21. SHARE-BASED PAYMENTS

21.1. STOCK OPTIONS, PERFORMANCE SHARES AND STOCK APPRECIATION RIGHTS

- **Stock option plans and free performance shares**

	Adjusted exercise price *(1)*	Exercise period	Option's fair value at grant date	Adjusted number of options granted *(2)*	Adjusted number of options exercised since the origin	Adjusted number of options cancelled since the origin	Adjusted number of outstanding options at 31 March 2011 (inc. those that may be subscribed by the present members of the Executive Committee)	Performance share's fair value at grant date	Adjusted number of performance shares that may be delivered *(3)*	Adjusted number of performance shares delivered since the origin	Adjusted number of performance shares cancelled since the origin	Adjusted number of outstanding performance shares at 31 March 2011 (inc. to the present members of the Executive Committee)
Plans issued of shareholders meeting on 24 July 2001												
Plan #6												
Granted on 7 January 2003 to 5 beneficiaries	€77.20	7 Jan. 2004 6 Jan. 2011	-	94,828	5,000	89,828	-	-	-	-	-	-
Plans issued of shareholders meeting on 9 July 2004												
Plan #7												
Granted on 17 September 2004 to 1,007 beneficiaries	€8.60	17 Sept. 2007 16 Sept. 2014	€ 6.97	5,566,000	4,445,828	438,500	681,672 (125,000)	-	-	-	-	-
Plan #8												
Granted on 27 September 2005 to 1,030 beneficiaries	€17.88	27 Sept. 2008 26 Sept. 2015	€ 9.72	2,803,000	1,520,831	255,232	1,026,937 (130,000)	-	-	-	-	-
Plan #9												
Granted on 28 September 2006 to 1,053 beneficiaries	€37.33	28 Sept. 2009 26 Sept. 2016	€ 12.19	3,367,500	497,767	341,000	2,528,733 (525,000)	-	-	-	-	-
Plans issued of shareholders meeting on 26 June 2007												
Plan #10												
Granted on 25 September 2007 to 1,196 beneficiaries	€67,50	25 Sept. 2010 24 Sept. 2017	€ 26.69	1,697,200	1,000	98,900	1,597,300 (298,000)	€ 116.42	252,000	102,160	27,840	122,000
Plan #11												
Granted on 23 September 2008 to 1,431 beneficiaries	€66.47	23 Sept. 2011 22 Sept. 2018	€ 18.58	754,300	-	754,300	-	€ 57.31	445,655	-	445,655	-
Plan #12												
Granted on 21 September 2009 to 1,360 beneficiaries	€49.98	21 Sept. 2012 20 Sept. 2017	€ 10.28	871,350	-	30,550	840,800 (217,000)	€ 43.28	522,220	-	33,700	488,520 (16,000)
Plan issued of shareholders meeting on 22 June 2010												
Plan #13												
Granted on 13 December 2010 to 1,716 beneficiaries	€33.14	13 Dec. 2013 12 Dec. 2018	€ 6.93	1,235,120		54,630	1,180,490 (245,000)	€ 28.31	740,860	-	20,980	719,880 (20,000)

(1) The exercise price corresponds to the average opening price of the shares during the twenty trading days preceding the day on which the options were granted by the Board (no discount or surcharge).
(2) The number of options and performance shares and the exercise price of options have been adjusted as a result of transactions that have impacted the number of capital shares after grant dates.
(3) The performance shares initially granted amounted to 126,000 (plan 10).

The exercise period of stock options granted by plan 6 has expired during the year ended 31 March 2011.

At 31 March 2011, stock options granted by plans 7, 8, 9 and 10 are fully vested. These options will expire seven years after the end of the vesting period of each plan.

The number of stock options, free performance shares and stock appreciation rights granted on 23 September 2008 under the long term incentive plan 11 was conditional upon the Group satisfying specified levels of operating margin for the financial year 2010/2011.
The 2010/2011 Group's operating margin is below 9.0%; as a consequence no option will be exercisable under this plan and no performance share will be delivered.

The long term incentive plans 12 and 13 set up since 2007 also combine the allocation of stock options with the free allocation of performance shares.
The grant of these instruments is conditional upon the group satisfying the following performance conditions:

LTI plan 12 granted on 21 September 2009:

In order to take into account the temporary dilutive impact of the integration of Alstom Grid, the Board of Directors has decided to adjust the thresholds of the operating margin for the financial year 2011/2012 as follows:
if the 2011/12 Group's operating margin is equal or above 8.7%, 840,800 options will be exercisable and 488,520 performance shares will be delivered;
if the 2011/12 Group's operating margin is between 8.2% (inclusive) and 8.7% (exclusive), 80% of options will be exercisable and 80% of performance shares will be delivered;
if the 2011/12 Group's operating margin is between 7.2% (inclusive) and 8.2% (exclusive), 60% of options will be exercisable and 60% of performance shares will be delivered;
if the 2011/12 Group's operating margin is between 6.5% (inclusive) and 7.2% (exclusive), 40% of options will be exercisable and 40% of performance shares will be delivered;
if the 2011/12 Group's operating margin is below 6.5%, no option will be exercisable and no performance share will be delivered.

LTI plan 13 granted on 13 December 2010:
The total number of options exercisable and performance shares to be delivered will depend on the Group's operating margin for the financial years 2010/2011, 2011/2012 and 2012/2013:

	% of conditionnal options exercisable & performance shares to be delivered		
	FY10/11	**FY11/12**	**FY12/13**
Operating margin achieved above or equal to 7.5%	40%	40%	20%
Operating margin achieved between 7% (inclusive) and 7.5% (non inclusive)	30%	30%	10%
Operating margin achieved between 6.5% (inclusive) and 7% (non inclusive)	10%	10%	0%
Operating margin achieved below 6.5%	0%	0%	0%

For financial year 2010/2011, based on consolidated financial statements, the performance condition is achieved for 40% of an allotment of LTIP13 options and performance shares.

As a reference, for financial year 2011/2012, the Group has given a 7% to 8% operating margin guidance.

- **Stock appreciation rights ("SARs") plans**

	Adjusted exercise price *(1)*	Vesting date Expiry date	Adjusted number of SARs granted *(2)*	Adjusted number of SARs exercised since the origin	Adjusted number of SARs cancelled since the origin	Adjusted number of outstanding SARs at 31 March 2011
SARs #7 Granted on 1 December 2004 for 114 beneficiaries	€8.60	17 Sept. 2007 16 Sept. 2014	478,000	407,620	69,052	1,328
SARs #8 Granted on 18 November 2005 for 120 beneficiaries	€22.45	27 Sept. 2008 18 Nov. 2015	234,000	127,750	43,100	63,150
Notional SARs (3) Granted on 16 December 2005 for 120 beneficiaries	€17.88	27 Sept. 2008 26 Sept. 2015	232,000	189,074	37,000	5,926
SARs #9 Granted on 28 September 2006 for 134 beneficiaries	€36.05	28 Sept. 2009 28 Sept. 2016	341,250	167,425	53,125	120,700
SARs #10 Granted on 25 September 2007 for 134 beneficiaries	€73.42	25 Sept. 2010 24 Sept. 2017	59,700	1,800	4,200	53,700

(1) The exercise price before adjustment corresponds to the average opening price of the shares during the twenty trading days preceding the day on which the options were granted by the board (no discount or surcharge).
(2) The number of SARS and their exercise prices have been adjusted as a result of transactions that have impacted the number of capital shares after grant dates.

(3) Notional SARs are capped at € 22.45.

- **Movements in stock option plans, performance shares and stock appreciation rights plans**

	Number of options	Weighted average exercise price per share in €	Number of SARs	Weighted average exercise price per share in €	Number of performance shares
Outstanding at 31 March 2009	**8,983,767**	**46.05**	**508,554**	**34.14**	**679,551**
Granted	871,350	49.98			522,220
Exercised	(1,395,765)	20.52	(217,651)	28.84	(160)
Cancelled	(513,438)	180.71	11,841	19.97	(24,395)
Outstanding at 31 March 2010 (1)	**7,945,914**	**42.27**	**302,744**	**36.87**	**1,177,216**
Granted	1,235,120	33.14	0	0	740,860
Exercised	(364,619)	19.31	(86,490)	35.73	(102,000)
Cancelled	(960,483)	51.29	28,550	43.21	(485,676)
Outstanding at 31 March 2011	**7,855,932**	**39.15**	**244,804**	**40.15**	**1,330,400**

(1) On 11 May 2010, 101,560 free shares were allocated to beneficiaries of French companies.

As at 31 March 2011,

- 7,855,932 stock options are outstanding, of which 5,834,642 are exercisable,
- 1,330,400 performance shares are outstanding,
- 244,804 SARs are outstanding, of which 244,804 are exercisable.

- **Valuation of stock option plans and performance shares**

	Exercise price	End of vesting period	Share price at grant date	Volatility	Risk free interest rate	Average dividend yield
Plan #9 Granted on 28 September 2006 with an expected life of 4 years	€37.33	28 Sept. 2009	€36.05	22%	3.5%	1.0%
Plan #10 Granted on 25 September 2007 with an expected life of 4 years	€67.50	24 Sept. 2010	€73.42	23%	4.2%	1.3%
Plan #11 Granted on 23 September 2008 with an expected life of 3 years	€66.47	22 Sept. 2011	€65.10	30%	4.1%	1.3%
Plan #12 Granted on 21 September 2009 with an expected life of 3 years	€49.98	20 Sept. 2012	€50.35	30%	2.0%	1.3%
Plan #13 Granted on 13 December 2010 with an expected life of 3 years	€33.14	12 Dec. 2013	€35.40	31%	1.8%	3.1%

The option valuation method follows a binomial mathematical model for plans 9, 10 and 11 and a Black & Scholes model for plans 12 and 13, with exercise of the options anticipated and spread over the exercise period on a straight-line basis. The volatility factor applied is an average of CAC 40 comparable companies' volatility at the grant date, which represents a value consistent with market practices and is considered more relevant given the significant volatility of the Group's share price over the last few years.

The Group booked a total expense of € 11 million for the year ended 31 March 2011, and € 15 million for the year ended 31 March 2010.

- **Valuation of stock appreciation rights (SARs) plans**

	Exercise price	End of vesting period	Share price at 31 March: - 2011 - 2010	Volatility	Risk free interest rate	Average dividend yield
SARs #7 Granted on 1 December 2004 with an expected life of 4 years	€8.60	17 Sept. 2007	€ 41.73 €46.17	23%	1.8%	2.2%
SARs #8 Granted on 18 November 2005 with an expected life of 4 years	€22.45	27 Sept. 2008	€ 41.73 €46.17	23%	1.8%	2.2%
Notional SARs Granted on 27 September 2005 with an expected life of 4 years	€17.88	27 Sept. 2008	*	23%	1.8%	2.2%
SARs #9 Granted on 28 September 2006 with an expected life of 4 years	€36.05	28 Sept. 2009	€ 41.73 €46.17	23%	1.8%	2.2%
SARs #10 Granted on 25 September 2007 with an expected life of 4 years	€73.42	24 Sept. 2010	€ 41.73 €46.17	23%	1.8%	2.2%

* SARs of the Notional plan have been granted at an exercise price of €17.88 and are capped at €22.45

All SARs granted are measured using a binomial model taking into account the terms and conditions according to which the instruments were granted.

The Group books a total income of € 2 million for the year ended 31 March 2011, and € 4 million for the year ended 31 March 2010.

21.2. SHARE-BASED PAYMENTS AWARDED TO EMPLOYEES

- **Free shares**

On 17 November 2005, the Group announced the attribution of twelve free shares to all employees, or the equivalent in cash (SARs) depending on the conditions in each country.

At 31 March 2006, the cost related to the portion of the attribution to be settled in shares (€27 million) has been immediately offset in equity. The cost related to the portion of the attribution to be settled in cash is spread over the vesting period that extends until 16 May 2010 (€4 million income for the year ended 31 March 2011 and €2 million income for the year ended 31 March 2010).

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- **Alstom sharing 2009**

In January 2009, the Group announced a new scheme offered to Group employees in 22 countries and consisting of the following:

- the Two for One 2009 plan based on "buy one share and get one free" concept: within this plan, subscribing employees outside France will receive, instead of the company match offered to the subscribers in France, shares allocated for free by Alstom; and
- the Alstom Classic 2009 plan: this plan allowed employees to subscribe to Alstom shares at a lower price than the current market price.

The €11 million expense relating to this scheme recorded in the income statement for the year ended 31 March 2009 has been assessed on the following basis:

- Estimated number of shares to be created: 1,229,928
- 20-day share price average before grant date: €38.54 ; Subscription price: €30.84 ; Risk-free interest rate: 2.7%.

NOTE 22. PROVISIONS

(in € million)	At 31 March 2010	Additions	Releases	Applications	Business combination	Translation adjustments and other	At 31 March 2011
Warranties	484	381	(185)	(189)	223	7	721
Litigations and claims	697	392	(368)	(263)	212	(4)	666
Current provisions (1)	**1,181**	**773**	**(553)**	**(452)**	**435**	**3**	**1,387**
Tax risks and litigations (2)	92	50	(19)	(54)	69	1	139
Restructuring (3)	102	327	(11)	(68)	12	(1)	361
Other non-current provisions (4)	266	300	(78)	(47)	157	(3)	595
Non-current provisions	**460**	**677**	**(108)**	**(169)**	**238**	**(3)**	**1 095**
Total provisions	**1,641**	**1 450**	**(661)**	**(621)**	**673**	**-**	**2,482**

(in € million)	At 31 March 2009	Additions	Releases	Applications	Translation adjustments and other	At 31 March 2010
Warranties	477	281	(155)	(126)	7	484
Litigations and claims	749	237	(112)	(183)	6	697
Current provisions (1)	**1,226**	**518**	**(267)**	**(309)**	**13**	**1,181**
Tax risks and litigations (2)	71	34	(9)	(19)	15	92
Restructuring (3)	117	65	(28)	(53)	1	102
Other non-current provisions (4)	256	73	(45)	(16)	(2)	266
Non-current provisions	**444**	**172**	**(82)**	**(88)**	**14**	**460**
Total provisions	**1,670**	**690**	**(349)**	**(397)**	**27**	**1,641**

(1) Current provisions relate to warranties, litigations and claims on completed contracts.

(2) In relation to tax risks, the Group tax filings are subject to audit by tax authorities in most jurisdictions in which the Group operates. These audits may result in assessment of additional taxes that are subsequently resolved with the authorities or potentially through the courts. The Group believes that it has strong arguments against the questions being raised, that it would pursue all legal remedies to avoid an unfavourable outcome and that it has adequately provided for any risk that could result from those proceedings where it is probable that it will pay some amounts.

(3) In the last six months of the financial year ended 31 March 2011, the Group has started to implement fundamental reorganisations of its footprint in order to address the lower demand in developed countries (Europe and USA) and the fast growth of its markets in emerging countries.

(4) Other non-current provisions mainly relate to guarantees delivered in connection with disposals, employee litigations, commercial disputes and environmental obligations. Environmental provisions amount to €41 million at 31 March 2011 and €16 million at 31 March 2010.

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NOTE 23. POST-EMPLOYMENT AND OTHER LONG-TERM DEFINED EMPLOYEE BENEFITS

• Change in defined benefit obligations

(in € million)	Year ended 31 March 2011	31 March 2010	31 March 2009
Defined benefit obligations at beginning of year	**(4,251)**	**(3,668)**	**(4,110)**
Service cost	(74)	(69)	(68)
Plan participant contributions	(37)	(33)	(29)
Interest cost	(233)	(206)	(219)
Plan amendments	(9)	(3)	1
Business combinations / disposals	(382)	(5)	(1)
Curtailments	19	1	-
Settlements	10	49	74
Actuarial gains (losses) - due to experience	(25)	(16)	15
Actuarial gains (losses) - due to changes in assumptions	(124)	(380)	293
Benefits paid	295	228	213
Change in scope	-	-	-
Foreign currency translation	(81)	(149)	163
Defined benefit obligations at end of year	**(4,892)**	**(4,251)**	**(3,668)**
Of which:			
Funded schemes	(4,311)	(3,840)	(3,342)
Unfunded schemes	(581)	(411)	(326)

• Change in plan assets

(in € million)	Year ended 31 March 2011	31 March 2010	31 March 2009
Fair value of plan assets at beginning of year	**3,334**	**2,716**	**3,360**
Expected return on assets	217	182	224
Actuarial gains (losses) on assets due to experience	(27)	405	(663)
Company contributions	132	104	146
Plan participant contributions	37	33	29
Business combinations /disposals	204	-	-
Settlements	(10)	(46)	(67)
Benefits paid from plan assets	(216)	(189)	(148)
Change in scope	-	-	-
Foreign currency translation	92	129	(165)
Fair value of plan assets at end of year	**3,763**	**3,334**	**2,716**

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- **Reconciliation of funded status of the plans with assets and liabilities recognised in the balance sheet**

(in € million)	At 31 March 2011	At 31 March 2010	At 31 March 2009
Funded status of the plans	**(1,129)**	**(917)**	**(952)**
Unrecognised past service costs (gains)	25	(12)	(10)
Impact of asset ceiling	(13)	(6)	(4)
Net of accrued and prepaid benefit costs after asset ceiling	**(1,117)**	**(935)**	**(966)**
Of which:			
Accrued pension and other employee benefit costs	***(1,145)***	***(943)***	***(970)***
Prepaid pension and other employee benefit costs	***28***	***8***	***4***

- **Details of funded status by geographical area:**

(in € million)	At 31 March 2011
Euro Zone	(616)
Rest of Europe	(292)
North America	(185)
South & central America	(10)
Asia/ Pacific	(21)
Middle East/ Africa	(5)
Total Group	**(1,129)**

- **Changes of accrued pensions and other employee benefits recognised in comprehensive income**

Actuarial gains and losses and asset ceiling arising from post-employment defined benefit plans have been recognised in other comprehensive income as follows:

(in € million)	At 31 March 2011	At 31 March 2010	At 31 March 2009
Opening balance (net loss)	**(1,363)**	**(1,370)**	**(1,051)**
Actuarial gains and losses generated during the period	(176)	10	(355)
Asset ceiling generated during the period	(7)	(3)	36
Closing balance (net loss)	**(1,546)**	**(1,363)**	**(1,370)**

- **Components of plan assets**

(in € million)	At 31 March 2011	%	At 31 March 2010	%	At 31 March 2009	%
Equities	1,417	37.7	1,214	36.4	930	34.3
Bonds	1,898	50.4	1,747	52.4	1,412	52.0
Properties	340	9.0	270	8.1	215	7.9
Others	108	2.9	103	3.1	159	5.8
Total	**3,763**	100	**3,334**	100	**2,716**	100

Plan assets for each individual plan are invested in accordance with statutory regulations, pension plan rules, and decisions of pension fund trustees. At 31 March 2011, plan assets do not include any of the Group's capital stock.

- **Assumptions (weighted average rates)**

(in %)	At 31 March 2011	At 31 March 2010	At 31 March 2009
Discount rate	4.82	5.11	5.74
Rate of compensation increase	3.03	2.99	3.10
Expected return on plan assets for the period	6.03	6.13	6.61

Actuarial assumptions used vary by country and type of plan. Compensation increase assumptions are determined at business unit level and reviewed centrally. The expected return on plan assets is based on long-term market expectations taking into account the asset allocation of each fund.

The healthcare trend rate is assumed to be 8% in the year ended 31 March 2011 and reduces thereafter to an ultimate rate of 5% from 2018 onwards.

Sensitivity analysis shows that a 50-point increase in discount rates would reduce the Group obligations by approximately €311 million. A 50-point decrease in discount rates would increase the Group obligations by approximately €329 million.

At the year ended 31 March 2011, the effective return on assets amounts to 5.37%.

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- **Analysis of post-employment and other long-term defined benefit expense**

	Year ended		
(in € million)	**31 March 2011**	**31 March 2010**	**31 March 2009**
Service cost	(74)	(69)	(68)
Defined contributions *(*)*	(155)	(150)	(144)
Income from operations	**(229)**	**(219)**	**(212)**
Actuarial gains/losses on other long-term benefits	(1)	-	-
Amortisation of unrecognised past service gain (cost)	28	(1)	2
Curtailments/settlements	19	4	7
Other income (expenses)	**46**	**3**	**9**
Interest cost	(233)	(206)	(219)
Expected return on plan assets	217	182	224
Financial income (expenses)	**(16)**	**(24)**	**5**
Total benefit expense	**(199)**	**(240)**	**(198)**

(*) Excluding Grid's figures.

Including an expense of € 10 million related to multi-employer contributions accounted for as defined contribution plans for the year ended 31 March 2011.

Total cash spent in the year ended 31 March 2011 amounted respectively to €211 million and €155 (*)million for defined benefit and defined contribution plans (€143 million and €150 million for the year ended 31 March 2010 and €211 million and €144 million for the year ended 31 March 2009).

The company's best estimate of contributions to defined benefit and defined contribution plans expected to be paid in the year ended 31 March 2012 is approximately €350 (*)million, of which €174 (*)million of employer contributions to defined benefits plans.

(*) excluding Grid's amount

NOTE 24. FINANCIAL DEBT

Carrying amount (in € million)	**At 31 March 2011**	**At 31 March 2010**	**At 31 March 2009**
Bonds *(1)*	3,238	1,736	273
Other borrowing facilities	611	248	261
Put options and earn-out on acquired entities (2)	20	30	209
Derivatives relating to financing activities	18	10	27
Accrued interests	37	17	1
Borrowings	**3,924**	**2,041**	**771**
Non-current	*3,346*	*1,845*	*65*
Current	*578*	*196*	*706*
Obligations under finance leases	137	146	156
Other obligations under long-term rental *(3)*	405	427	429
Obligations under finance leases	**542**	**573**	**585**
Non-current	*491*	*527*	*543*
Current	*51*	*46*	*42*
Total financial debt	**4,466**	**2,614**	**1,356**

(1) The movements in the nominal amount of the bonds in the last two years are as follows:

		Redemption date					
(Nominal value in € million)	**Total**	**3 March 2010**	**23 September 2014**	**5 October 2015**	**01 February 2017**	**5 October 2018**	**18 March 2020**
Outstanding amount at 31 March 2009	**275**	**275**	**-**	**-**	**-**	**-**	**-**
Issue of bonds	1,750	-	500	-	750	-	500
Bonds reimbursed at maturity date	(275)	(275)	-	-	-	-	-
Outstanding amount at 31 March 2010	**1 750**	**-**	**500**	**-**	**750**	**-**	**500**
Issue of bonds	1 500	-	250	500	-	500	250
Bonds reimbursed at maturity date	-	-	-	-	-	-	-
Outstanding amount at 31 March 2011	**3 250**	**-**	**750**	**500**	**750**	**500**	**750**
Nominal interest rate	-	6.25%	4.0%	2,88%	4.13%	3,63%	4.50%
Effective interest rate as of 31 March 2011	-	-	3.89%	2,98%	4.25%	3,71%	4.58%
Effective interest rate as of 31 March 2010	-	7.16%	4.22%	-	4.25%	-	4.58%

(2) At the end of November 2009, Bouygues exercised the put option over its 50% equity interest in Alstom Hydro Holding in exchange for 4,400,000 Alstom shares. Due to clearance processes by competition authorities in some countries, the transaction has been finalised in March 2010. The liability cancelled for this operation amounted to €175 million at the day the put was exercised (€170 million at 31 March 2009).

(3) This debt represents liabilities related to lease obligations on trains and associated equipment (see Note 13 and 29).

NOTE 25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

25.1. FINANCIAL INSTRUMENTS REPORTED IN THE FINANCIAL STATEMENTS

The Group's financial liabilities comprise borrowings, trade and other payables. The main purpose of these financial liabilities is to raise funds for the Group's operations.
The Group has loans, trade and other receivables, and cash and cash equivalents that are directly derived from its operations.

The Group is exposed to currency risk, interest rate risk, credit risk and liquidity risk.

The main valuation methods applied are as follows:

- borrowings, when unhedged, are stated at amortised cost, determined by the effective interest rate method,
- the fair value of cash, cash equivalents, trade receivables and trade payables is considered as being equivalent to carrying value, due to their short maturities,
- the fair value of the financial debt is estimated based on either quoted market prices for traded instruments or current rates offered to the Group for debt of the same maturity.

- **YEAR ENDED 31 MARCH 2011**

Balance sheet positions at 31 March 2011

At 31 March 2011 (in € million)	Balance sheet carrying amount	Carrying amount not defined as financial instruments	Carrying amount of items classified as financial instruments (1)					Fair value of items classified as financial instruments			
			FV P/L	AFS	LRL at amortised cost	DER	Total	Listed prices	Internal model based on observabl es factors	Internal model not based on observabl es factors	Total
Associates and available for sale assets	**207**	**43**	-	164	-	-	**164**	-	164	-	**164**
Other non-current assets	**567**	**27**	-	-	540	-	**540**	-	111	429	**540**
Trade receivables	**6,053**	**-**	-	-	6,053	-	**6,053**	-	6,053	-	**6,053**
Other current operating assets	**2,945**	**1,650**	513	-	417	365	**1,295**	-	1,295	-	**1,295**
Marketable securities and other current financial assets	**50**	**-**	17	-	-	33	**50**	-	50	-	**50**
Cash and cash equivalents	**2,701**	**-**	2,701	-	-	-	**2,701**	-	2,701	-	**2,701**
Assets	**12,523**	**1,720**	**3 231**	**164**	**7,010**	**398**	**10,803**	**-**	**10,374**	**429**	**10,803**
Non-current borrowings	**3,346**	**-**	-	-	3,346	-	**3,346**	-	3,346	-	**3,346**
Non-current obligations under finance leases	**491**	**-**	-	-	491	-	**491**	-	491	-	**491**
Current borrowings	**578**	**-**	-	-	560	18	**578**	-	578	-	**578**
Current obligations under finance leases	**51**	**-**	-	-	51	-	**51**	-	51	-	**51**
Trade payables	**4,071**	**-**	-	-	4,071	-	**4,071**	-	4,071	-	**4,071**
Other current operating liabilities	**4,063**	**1,472**	311	-	1 717	563	**2,591**	-	2,591	-	**2,591**
Liabilities	**12,60**	**1,472**	**311**	**-**	**10,236**	**581**	**11,128**	**-**	**11,128**	**-**	**11,128**

(1) FV P/L short for fair value through profit and loss; AFS short for available-for-sale assets; LRL short for loans, receivables and liabilities and DER short for derivative instruments.

Financial income and expense arising from financial instruments for period ended 31 March 2011

(in € million)	FV P/L	AFS	HTM	LRL at amortised cost inc. related derivatives	**TOTAL**
Interests	3	-	-	(89)	**(86)**
Interest income	*3*	*-*	*-*	*46*	*49*
Interest expense	*-*	*-*	*-*	*(135)*	*(135)*
Dividends	-	4	-	-	**4**
Impairment/loss from subsequent measurement	-	1	-	-	**1**
Gain on disposal	-	-	-	-	**-**
Foreign currency and other	-	-	-	(39)	**(39)**
Net income/expense for the year ended 31 March 2011	**3**	**5**	**-**	**(128)**	**(120)**

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The amount reported as "foreign currency and other" is mainly representative of forward points attached to transactions related to financing activities (See Note 2.3.7) and bank fees (see Note 7).

Income from operations arising from financial instruments for the period ended 31 March 2011

Net foreign currency gains and losses recorded within income from operations are positive by €14 million for the year ended 31 March 2011.

They are made up of two components:

- forward points attached to hedging transactions qualified for hedge accounting,
- variation of fair value of instruments hedging future cash flows and not qualifying for hedge accounting.

- **YEAR ENDED 31 MARCH 2010**

Balance sheet positions at 31 March 2010

			Carrying amount of items classified as financial instruments (1)					Fair value of items classified as financial instruments			
At 31 March 2010 (in € million)	**Balance sheet carrying amount**	**Carrying amount not defined as financial instruments**	FV P/L	AFS	LRL at amortised cost	DER	**Total**	Listed prices	Internal model based on observables factors	Internal model not based on observables factors	**Total**
Associates and available for sale assets	**66**	**43**	-	23	-	-	**23**	-	23	-	**23**
Other non-current assets	**535**	**8**	-	-	527	-	**527**	-	77	450	**527**
Trade receivables	**3,446**	**-**	-	-	3,446	-	**3,446**	-	3,446	-	**3,446**
Other current operating assets	**2,578**	**1,355**	450	-	455	318	**1,223**	-	1,223	-	**1,223**
Marketable securities and other current financial assets	**35**	**-**	4	-	-	31	**35**	-	35	-	**35**
Cash and cash equivalents	**4,351**	**-**	4,351	-	-	-	**4,351**	-	4,351	-	**4,351**
Assets	**11,011**	**1,406**	**4 805**	**23**	**4,428**	**349**	**9,605**	**-**	**9,155**	**450**	**9,605**
Non-current borrowings	**1,845**	**-**	-	-	1,845	-	**1,845**	-	1,845	-	**1,845**
Non-current obligations under finance leases	**527**	**-**	-	-	527	-	**527**	-	527	-	**527**
Current borrowings	**196**	**-**	-	-	186	10	**196**	-	196	-	**196**
Current obligations under finance leases	**46**	**-**	-	-	46	-	**46**	-	46	-	**46**
Trade payables	**3,613**	**-**	-	-	3,613	-	**3,613**	-	3,613	-	**3,613**
Other current operating liabilities	**2,784**	**1,386**	263	-	699	436	**1,398**	-	1,398	-	**1,398**
Liabilities	**9,011**	**1,386**	**263**	**-**	**6,916**	**446**	**7,625**	**-**	**7,625**	**-**	**7,625**

(1) FV P/L short for fair value through profit and loss; AFS short for available-for-sale assets; LRL short for loans, receivables and liabilities and DER short for derivative instruments.

Financial income and expense arising from financial instruments for period ended 31 March 2010

(in € million)	FV P/L	AFS	HTM	LRL at amortised cost inc. related derivatives	**TOTAL**
Interests	-	-	-	(7)	**(7)**
Interest income	-	-	-	*51*	*51*
Interest expense	-	-	-	*(58)*	*(58)*
Dividends	-	2	-	-	**2**
Impairment/loss from subsequent measurement	-	-	-	-	**-**
Gain on disposal	-	-	-	-	**-**
Foreign currency and other	-	-	-	(13)	**(13)**
Net income/expense for the year ended 31 March 2010	**-**	**2**	**-**	**(20)**	**(18)**

The amount reported as “foreign currency and other” is mainly representative of forward points attached to transactions related to financing activities (See Note 2.3.7) and bank fees (see Note 7).

Income from operations arising from financial instruments for the period ended 31 March 2010

Net foreign currency gains and losses recorded within income from operations are positive by €28 million for the year ended 31 March 2010.

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- **YEAR ENDED 31 MARCH 2009**

Balance sheet positions at 31 March 2009

At 31 March 2009 (in € million)	Balance sheet carrying amount	Carrying amount not defined as financial instruments	Carrying amount of items classified as financial instruments (1)					Fair value of items classified as financial instruments			
			FV P/L	AFS	LRL at amortised cost	DER	Total	Listed prices	Internal model based on observables factors	Internal model not based on observables factors	Total
Associates and available for sale assets	**66**	**39**	-	27	-	-	**27**	-	27	-	**27**
Other non-current assets	**529**	**4**	-	-	525	-	**525**	-	76	449	**525**
Trade receivables	**3,873**	**-**	-	-	3,873	-	**3,873**	-	3,873	-	**3,873**
Other current operating assets	**2,773**	**1,309**	705	-	,417	342	**1,464**	-	1,464	-	**1,464**
Marketable securities and other current financial assets	**15**	**-**	5	-	-	10	**15**	-	15	-	**15**
Cash and cash equivalents	**2,943**	**-**	2,943	-	-	-	**2,943**	-	2,943	-	**2,943**
Assets	**10,199**	**1,352**	**3 653**	**27**	**4,815**	**352**	**8,847**	**-**	**8,398**	**449**	**8,847**
Non-current borrowings	**65**	**-**	-	-	60	5	**65**	-	65	-	**65**
Non-current obligations under finance leases	**543**	**-**	-	-	543	-	**543**	-	543	-	**543**
Current borrowings	**706**	**-**	-	-	684	22	**706**	-	706	-	**706**
Current obligations under finance leases	**42**	**-**	-	-	42	-	**42**	-	42	-	**42**
Trade payables	**3,866**	**-**	-	-	3,866	-	**3,866**	-	3,866	-	**3,866**
Other current operating liabilities	**2,847**	**1,313**	354	-	539	641	**1,534**	-	1,534	-	**1,534**
Liabilities	**8,069**	**1,313**	**354**	**-**	**5,734**	**668**	**6,756**	**-**	**6,756**	**-**	**6,756**

(1) FV P/L short for fair value through profit and loss; AFS short for available-for-sale assets; LRL short for loans, receivables and liabilities and DER short for derivative instruments.

Financial income and expense arising from financial instruments for period ended 31 March 2009

(in € million)	FV P/L	AFS	HTM	LRL at amortised cost inc. related derivatives	**TOTAL**
Interests	4	-	-	25	**29**
Interest income	*4*	*-*	*-*	*103*	*107*
Interest expense	*-*	*-*	*-*	*(78)*	*(78)*
Dividends	-	4	-	-	**4**
Impairment/loss from subsequent measurement	-	(1)	-	-	**(1)**
Gain on disposal	-	-	-	-	**-**
Foreign currency and other	-	-	-	(16)	**(16)**
Net income/expense for the year ended 31 March 2009	**4**	**3**	**-**	**9**	**16**

The amount reported as “foreign currency and other” is mainly representative of forward points attached to transactions related to financing activities (See Note 2.3.7) and bank fees (see Note 7).

Income from operations arising from financial instruments for the period ended 31 March 2009

Net foreign currency gains and losses recorded within income from operations are negative by €5 million for the year ended 31 March 2009.

25.2. CURRENCY RISK MANAGEMENT

- **Financial debt**

The nominal value of the financial debt split by currency is as follows:

(in € million)	At 31 March 2011	At 31 March 2010	At 31 March 2009
Euro	3,686	2,062	700
US Dollar	52	7	8
British Pound	422	440	443
Other currencies	320	119	209
Financial debt in nominal value	**4,480**	**2,628**	**1,360**

The debt in GBP essentially originates from a long-term lease scheme of trains, involving London Underground. The related €405 million debt denominated in GBP is counter-balanced by long-term receivables having the same maturity and also denominated in GBP that are recognised as non-current assets (see Notes 13, 24 and 28).

- **Operations**

In the course of its operations, the Group is exposed to currency risk arising from tenders submitted in foreign currency, awarded contracts and any future cash out transactions denominated in foreign currency. Main currencies triggering a significant exposure for the year ended 31 March 2011 are the Swiss Franc and the US dollar.

During the tender period, depending on the probability to obtain the project and on market conditions, the Group generally hedges a portion of its tenders using options or export insurance contracts when possible. Once the contract is signed, forward exchange contracts are used to hedge the actual exposure during the life of the contract (either as the only hedging instruments or as a complement to existing export insurance contracts).

The Group requires all of its operating units to use forward currency contracts to eliminate the currency exposure on any individual sale or purchase transaction in excess of €100,000. Forward currency contracts must be denominated in the same currency as the hedged item. It is the

Group's policy to negotiate the terms of hedge derivatives to match the terms of hedged items to maximise hedge effectiveness.

Derivative instruments hedging foreign currency risk are recognised at their fair value on the balance sheet as follows:

	At 31 March 2011		At 31 March 2010		At 31 March 2009	
(in € million)	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives qualifying for fair value hedge	348	569	298	441	318	650
Derivatives qualifying for cash flow hedges	31	7	31	-	28	15
Derivatives qualifying for net investment hedges	-	-	-	-	-	-
Derivatives not qualifying for hedge accounting	1	2	5	3	6	3
Total	**380**	**578**	**334**	**444**	**352**	**668**

The fair value of those instruments is the estimated amount that the Group would receive or pay to settle the related contracts, valued on the basis of relevant yield curves and foreign exchange rates at closing date.

High volatility of foreign exchange rates during the periods ended 31 March 2011 and 31 March 2010 explains the significant amount of fair value of derivative instruments (either positive or negative). For instruments that qualify for fair value hedge accounting, any change in fair value is mostly offset by the re-measurement of the underlying exposure (either on balance sheet or off balance sheet).

The following table shows the sensitivity of the Group's pre-tax income to a change in the US dollar and Swiss Franc exchange rates. The effects on pre-tax income arise from derivative instruments not qualifying for hedge accounting and unhedged monetary items while the effect on income and expense directly recognised in equity is due to the measurement of the effective portion of derivative instruments qualifying for cash flow hedge accounting.

	USD rate			CHF rate		
	Variation	Effect on pre-tax income	Effect on income and expense directly recognised in equity	Variation	Effect on pre-tax income	Effect on income and expense directly recognised in equity
Year ended 31 March 2011	10%	-	-	5%	-	(15)
	-10%	-	-	-5%	-	15
Year ended 31 March 2010	10%	1	-	5%	-	(17)
	-10%	(1)	-	-5%	-	17
Year ended 31 March 2009	10%	(1)	-	5%	4	(29)
	-10%	1	-	-5%	(4)	29

The effective portion of instruments qualifying for cash flow hedge accounting reclassified from equity to profit or loss during the year ended 31 March 2011 is positive by €27 million.

25.3. INTEREST RATE RISK MANAGEMENT

The Group has not implemented an active interest rate risk management policy. However under the supervision of the Executive Committee, it may enter into transactions in order to hedge its interest rate risk on a case-by-case basis according to market opportunities.

Carrying amount (in € million)	**At 31 March 2011**	**At 31 March 2010**	**At 31 March 2009**
Financial assets at floating rate	2,793	4,372	2,965
Financial assets at fixed rate	454	480	481
Financial assets bearing interests	**3,247**	**4,852**	**3,446**
Financial debt at floating rate	40	(11)	(12)
Financial debt at fixed rate, put options and earn-out on acquired entities	4,426	(2,030)	(1,344)
Financial debt	**4,466**	**(2,041)**	**(1,356)**
Net position at floating rate before swaps	2,833	4,361	2,953
Net position at fixed rate before swaps	4,880	(1,550)	(863)
Net position before hedging	**7,713**	**2,811**	**2,090**
Net position at floating rate after swaps	2,833	4,361	2,953
Net position at fixed rate after swaps	4,880	(1,550)	(863)
Net position after hedging	**7,713**	**2,811**	**2,090**

Sensitivity is analysed based on the group's net cash position after hedging at 31 March 2011, assuming that it remains constant over one year.

In absence of instruments hedging the interest risk, the effects of increases or decreases in market rates are symmetrical: a rise of 0.9% would increase the net interest income by €24 million while a fall of 0.9% would decrease it by the same amount.

25.4. CREDIT RISK MANAGEMENT

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a loss. The Group is exposed to credit risk on its operating activities (primarily for trade receivables) and from its financing activities, including deposits, foreign currency hedging instruments and other financial instruments with banks and financial institutions.

- **Risk related to customers**

The Group believes that the risk of a counterpart failing to perform as contracted, which could have a significant impact on the Group's financial statements or results of operations, is limited because the Group seeks to ensure that customers generally have strong credit profiles or adequate financing to meet their project obligations.

In specific cases, the Group may use export credit insurance policies which may hedge up to 90% of the credit risk on certain contracts.

- **Risk related to other financial assets**

The Group's exposure to credit risk related to other financial assets arises from default of the counterpart, with a maximum exposure equal to the carrying amount of those instruments.

- **Risk related to cash and cash equivalents**

Credit risk from balances with banks and financial institutions is managed by Group treasury in accordance with the Group's policy. At 31 March 2011 and at 31 March 2010, as part of the central treasury management, cash and cash equivalents are invested entirely in deposits with bank counterparts of first rank noted "Investment Grade".

The Group's parent company has access to some cash held by wholly-owned subsidiaries through the payment of dividends or pursuant to intercompany loan arrangements. However local constraints can delay or restrict this access. Furthermore, while the Group's parent company has the power to control decisions of subsidiaries of which it is the majority owner, its subsidiaries are distinct legal entities and their payment of dividends and granting of loans, advances and other payments to the parent company may be subject to legal or contractual restrictions, be contingent upon their earnings or be subject to business or other constraints. These limitations include local financial assistance rules and corporate benefit laws.

The Group's policy is to centralise liquidity of subsidiaries at the parent company's level when possible. Restricted cash and cash equivalents available at subsidiary level were €398 million and €454 million at 31 March 2011 and 31 March 2010, respectively.

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25.5. LIQUIDITY RISK MANAGEMENT

- **Financial covenants**

At 31 March 2011, to increase its liquidity, the Group has in place a €1,000 million revolving credit facility fully undrawn maturing in March 2012 and extended for €942 million up to March 2013. This facility is subject to the following financial covenants, based on consolidated data:

Covenants	Minimum Interest Cover	Maximum total debt (€m)	Maximum total net debt leverage
	(a)	**(b)**	**(c)**
From March 2010 to September 2013	3	5,000	3.6

(a) Ratio of EBITDA (Earnings Before Interest and Tax plus Depreciation and Amortisation) to net interest expense (excluding interest related to obligations under finance lease).It amounts to 19.1 at year end 31 March 2011. This covenant did not apply at year end 31 March 2010 since the Group had a net interest income.
(b) Total debt corresponds to borrowings, i.e. total financial debt less finance lease obligations. This covenant ceases to apply since the Group has an "Investment grade" rating.
(c) Ratio of total net debt (Total debt less short-term investments or trading investments and cash and cash equivalents) to EBITDA. The net debt leverage as at 31 March 2011 is 0.8 ((1.1) at 31 March 2010).

- **Cash Flow**

The Group's objective is to maintain a strong liquidity. A revolving cash planning tool is used to monitor the Group's liquidity needs.

The following tables show the remaining maturities of all financial assets and liabilities held at 31 March 2011 and 31 March 2010.

Planning data for future new assets and liabilities are not reported. Amounts in foreign currency are translated at the closing rate. The variable interest payments are calculated using the last interest rates available at the reporting date. Assets and liabilities that can be repaid at any time are always assigned to the earliest possible time period.

Financial instruments held at 31 March 2011

Cash flow arising from instruments included in net cash at 31 March 2011

Cash flow for the years ended 31 March (in € million)	Carrying amount	2012		2013		2014-2016		2017 and thereafter	
		Interests	Repayment	Interests	Repayment	Interests	Repayment	Interests	Repayment
Other non-current assets	429	29	28	27	26	69	81	27	294
Marketable securities and other current financial assets	50	-	50	-	-	-	-	-	-
Cash and cash equivalents	2,701	24	2,701	-	-	-	-	-	-
Assets	**3,180**	**53**	**2,779**	**27**	**26**	**69**	**81**	**27**	**294**
Non-current borrowings	(3,346)	-	-	(130)	(27)	(251)	(1,310)	(206)	(2,009)
Non-current obligations under finance leases	(491)	-	-	(31)	(45)	(80)	(131)	(32)	(315)
Current borrowings	(578)	(132)	(578)	-	-	-	-	-	-
Current obligations under finance leases	(51)	(34)	(51)	-	-	-	-	-	-
Liabilities	**(4,466)**	**(166)**	**(629)**	**(161)**	**(72)**	**(331)**	**(1,441)**	**(238)**	**(2,324)**
Net cash	**(1,286)**	**(113)**	**2,150**	**(134)**	**(46)**	**(262)**	**(1,360)**	**(211)**	**(2,030)**

Cash flow arising from derivatives at 31 March 2011

Cash flow for the years ended 31 March (in € million)	Carrying amount	2012		2013		2014-2016		2017 and thereafter	
		Interests	Repayment	Interests	Repayment	Interests	Repayment	Interests	Repayment
Other current operating assets	365	-	245	-	77	-	40	-	3
Assets	**365**	**-**	**245**	**-**	**77**	**-**	**40**	**-**	**3**
Other current operating liabilities	(563)	-	(227)	-	(256)	-	(66)	-	(14)
Liabilities	**(563)**	**-**	**(227)**	**-**	**(256)**	**-**	**(66)**	**-**	**(14)**
Derivatives	**(198)**	**-**	**18**	**-**	**(179)**	**-**	**(26)**	**-**	**(11)**

Cash flow arising from instruments included in other financial assets and liabilities at 31 March 2011

Cash flow for the years ended 31 March (in € million)	Carrying amount	2012		2013		2014-2016		2017 and thereafter	
		Interests	Repayment	Interests	Repayment	Interests	Repayment	Interests	Repayment
Other investments	164	-	-	-	-	-	-	-	164
Other non-current assets	111	-	55	-	21	-	2	-	33
Trade receivables	6,053	-	6,053	-	-	-	-	-	-
Other current operating assets	930	-	930	-	-	-	-	-	-
Assets	**7,258**	**-**	**7,038**	**-**	**21**	**-**	**2**	**-**	**197**
Trade payables	(4,071)	-	(4,071)	-	-	-	-	-	-
Other current operating liabilities	(2 028)	-	(2 028)	-	-	-	-	-	-
Liabilities	**(6,099)**	**-**	**(6,099)**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial assets and liabilities	**1 159**	**-**	**939**	**-**	**21**	**-**	**2**	**-**	**197**

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Financial instruments held at 31 March 2010

Cash flow arising from instruments included in net cash at 31 March 2010

Cash flow for the years ended 31 March (in € million)	Carrying amount	2011		2012		2013-2015		2016 and thereafter	
		Interests	Repayment	Interests	Repayment	Interests	Repayment	Interests	Repayment
Other non-current assets	450	30	25	29	28	74	76	48	321
Marketable securities and other current financial assets	35	-	16	-	19	-	-	-	-
Cash and cash equivalents	4,351	30	4,351	-	-	-	-	-	-
Assets	**4,836**	**60**	**4,392**	**29**	**47**	**74**	**76**	**48**	**321**
Non-current borrowings	(1,845)	-	-	(76)	(10)	(212)	(561)	(169)	(1,274)
Non-current obligations under finance leases	(527)	-	-	(34)	(48)	(86)	(113)	(56)	(366)
Current borrowings	(196)	(77)	(196)	-	-	-	-	-	-
Current obligations under finance leases	(46)	(36)	(46)	-	-	-	-	-	-
Liabilities	**(2,614)**	**(113)**	**(242)**	**(110)**	**(58)**	**(298)**	**(674)**	**(225)**	**(1,640)**
Net cash	**2,222**	**(53)**	**4,150**	**(81)**	**(11)**	**(224)**	**(598)**	**(177)**	**(1,319)**

Cash flow arising from derivatives at 31 March 2010

Cash flow for the years ended 31 March (in € million)	Carrying amount	2011		2012		2013-2015		2016 and thereafter	
		Interests	Repayment	Interests	Repayment	Interests	Repayment	Interests	Repayment
Other current operating assets	318	-	217	-	53	-	40	-	8
Assets	**318**	**-**	**217**	**-**	**53**	**-**	**40**	**-**	**8**
Other current operating liabilities	(436)	-	(226)	-	(73)	-	(127)	-	(10)
Liabilities	**(436)**	**-**	**(226)**	**-**	**(73)**	**-**	**(127)**	**-**	**(10)**
Derivatives	**(118)**	**-**	**(9)**	**-**	**(20)**	**-**	**(87)**	**-**	**(2)**

Cash flow arising from instruments included in other financial assets and liabilities at 31 March 2010

Cash flow for the years ended 31 March (in € million)	Carrying amount	2011		2012		2013-2015		2016 and thereafter	
		Interests	Repayment	Interests	Repayment	Interests	Repayment	Interests	Repayment
Other investments	23	-	-	-	-	-	-	-	23
Other non-current assets	77	-	51	-	12	-	2	-	12
Trade receivables	3,446	-	3,446	-	-	-	-	-	-
Other current operating assets	905	-	905	-	-	-	-	-	-
Assets	**4,451**	**-**	**4,402**	**-**	**12**	**-**	**2**	**-**	**35**
Trade payables	(3,613)	-	(3,613)	-	-	-	-	-	-
Other current operating liabilities	(962)	-	(962)	-	-	-	-	-	-
Liabilities	**(4,575)**	**-**	**(4,575)**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial assets and liabilities	**(124)**	**-**	**(173)**	**-**	**12**	**-**	**2**	**-**	**35**

Financial instruments held at 31 March 2009

Cash flow arising from instruments included in net cash at 31 March 2009

Cash flow for the years ended 31 March (in € million)	Carrying amount	2010		2011		2012-2014		2015 and thereafter	
		Interests	Repayment	Interests	Repayment	Interests	Repayment	Interests	Repayment
Other non-current assets	449	31	20	29	23	76	75	67	331
Marketable securities and other current financial assets	15	-	15	-	-	-	-	-	-
Cash and cash equivalents	2,943	29	2,943	-	-	-	-	-	-
Assets	**3,407**	**60**	**2,978**	**29**	**23**	**76**	**75**	**67**	**331**
Non-current borrowings	(65)	(1)	-	(1)	(16)	(1)	(23)	-	(26)
Non-current obligations under finance leases	(543)	-	-	(35)	(46)	(88)	(114)	(77)	(383)
Current borrowings	(706)	(22)	(706)	-	-	-	-	-	-
Current obligations under finance leases	(42)	(37)	(42)	-	-	-	-	-	-
Liabilities	**(1,356)**	**(60)**	**(748)**	**(36)**	**(62)**	**(89)**	**(137)**	**(77)**	**(409)**
Net cash	**2,051**	**-**	**2,230**	**(7)**	**(39)**	**(13)**	**(62)**	**(10)**	**(78)**

Cash flow arising from derivatives at 31 March 2009

Cash flow for the years ended 31 March (in € million)	Carrying amount	2010		2011		2012-2014		2015 and thereafter	
		Interests	Repayment	Interests	Repayment	Interests	Repayment	Interests	Repayment
Other current operating assets	342	-	236	-	65	-	41	-	-
Assets	**342**	**-**	**236**	**-**	**65**	**-**	**41**	**-**	**-**
Other current operating liabilities	(641)	-	(376)	-	(138)	-	(120)	-	(7)
Liabilities	**(641)**	**-**	**(376)**	**-**	**(138)**	**-**	**(120)**	**-**	**(7)**
Derivatives	**(299)**	**-**	**(140)**	**-**	**(73)**	**-**	**(79)**	**-**	**(7)**

Cash flow arising from instruments included in other financial assets and liabilities at 31 March 2009

Cash flow for the years ended 31 March (in € million)	Carrying amount	2010		2011		2012-2014		2015 and thereafter	
		Interests	Repayment	Interests	Repayment	Interests	Repayment	Interests	Repayment
Other investments	27	-	-	-	-	-	-	-	27
Other non-current assets	76	1	36	-	9	-	-	-	31
Trade receivables	3,873	-	3,873	-	-	-	-	-	-
Other current operating assets	1,122	-	1,122	-	-	-	-	-	-
Assets	**5,098**	**1**	**5,031**	**-**	**9**	**-**	**-**	**-**	**58**
Trade payables	(3,866)	-	(3,866)	-	-	-	-	-	-
Other current operating liabilities	(893)	-	(893)	-	-	-	-	-	-
Liabilities	**(4,759)**	**-**	**(4,759)**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial assets and liabilities	**339**	**1**	**272**	**-**	**9**	**-**	**-**	**-**	**58**

25.6. COMMODITY RISK MANAGEMENT

Most of commodities bought by the Group has already been modified and included into spare parts. For the other commodities, the Group has included into customer contracts a customer price adjustment clause, so that the Group has a limited exposure to the variation of commodity prices.

NOTE 26. OTHER CURRENT OPERATING LIABILITIES

(in € million)	At 31 March 2011	At 31 March 2010	At 31 March 2009
Staff and associated costs	1,050	822	810
Corporate income tax	56	132	151
Other taxes	339	368	292
Deferred income	19	60	44
Other payables	1,725	703	554
Derivatives relating to operating activities	563	436	641
Remeasurement of hedged firm commitments in foreign currency	311	263	355
Other current operating liabilities	**4,063**	**2,784**	**2,847**

NOTE 27. EMPLOYEE BENEFIT EXPENSE AND HEADCOUNT

(in € million)	Year ended 31 March 2011	31 March 2010	31 March 2009
Total wages and salaries	4,326	3,484	3,336
Social charges	1,083	951	862
Post-employment and other long-term benefit expense (1) (see Note 23)	199	240	198
Share-based payment expense (see Note 21)	5	9	25
Total employee benefit expense	**5,613**	**4,684**	**4,421**

(1) Excluding Grid's amounts

	At 31 March 2011	At 31 March 2010	At 31 March 2009
Staff of consolidated companies			
Managers, engineers and professionals	41,301	32,486	32,001
Other employees	43,924	36,372	39,510
Headcount (2)	**85,225**	**68,858**	**71,511**

(2) Headcount doesn't include any temporary people

NOTE 28. CONTINGENT LIABILITIES AND DISPUTES

28.1. CONTINGENT LIABILITIES

- **Commercial obligations**

Contractual obligations of the Group towards its customers may be guaranteed by bank bonds or insurance bonds. Bank and insurance bonds may guarantee liabilities already recorded on the balance sheet as well as contingent liabilities.

At 31 March 2011, the Group has in place both uncommitted bilateral lines in numerous countries up to €19.6 billion and a Committed Bonding Facility Agreement allowing issuance of instruments from 28 July 2010 to 27 July 2013 for an amount of €8.275 billion.

At 31 March 2011, the total outstanding bonding guarantees related to contracts, issued by banks or insurance companies, amount to €15.7 billion (€14.6 billion at 31 March 2010).

The available amount under the Committed Bonding Facility at 31 March 2011 amounts to €2.1 billion (€2.0 billion at 31 March 2010). The issuance of new bonds under this bonding facility is subject to the financial covenants disclosed in Note 25.5. The available amount under bilateral lines at 31 March 2011 amounts to €9.8 billion.

- **Vendor financing**

Until 2003, the Group provided some financial support, referred to as vendor financing, to financial institutions financing certain purchasers of Transport equipments.

At 31 March 2011, guarantees given as part of past vendor financing arrangements amount to €244 million.
Included in this amount are:

- guarantees totalling $63 million (€44 million, €47 million and €47 million at 31 March 2011, 31 March 2010 and 31 March 2009 respectively) given with respect to equipments sold to a US train operator, and
- guarantees totalling £177 million (€200 million, €199 million and €190 million at 31 March 2011, 31 March 2010 and 31 March 2009 respectively) given as part of a leasing scheme involving London Underground (Northern Line). Were London Underground Limited to decide not to extend the contract beyond 2017, and to hand the trains back, the Group has guaranteed to the lessors that the value of the trains and associated equipment, net of the £15 million non extension payment due by London Underground, should not be less than £177 million in 2017. The £177 million is included in the €405 million amount of "Other obligations under long-term rental" (see Note 24).

28.2. DISPUTES

- **Disputes in the Group's ordinary course of business**

The Group is engaged in several legal proceedings, mostly contract-related disputes that have arisen in the ordinary course of business. These disputes, often involving claims for contract delays or additional work, are common in the areas in which the Group operates, particularly for large long-term projects. In some cases, the amounts are claimed against the Group, sometimes jointly with its consortium partners. Amounts can be significant.

In some proceedings amount claimed is not specified at the beginning of the proceeding. Amounts retained in respect of litigation are taken into account in the estimate of margin at completion in case of contracts in progress or included in provisions and other current liabilities in case of completed contracts when considered as reliable estimates of probable liabilities. Actual costs incurred may exceed the amount of initial estimates because of a number of factors including the inherent uncertainties of the outcome of litigation.

Moreover during fiscal year 2010/11, the Group had to face an increase in number and amount of first demand bank guarantees calls in the context of a tougher economic environment. When the Group considers that a call is irregular or is a misuse of the right to call a bank guarantee, it initiates appropriate legal proceedings.

- **Asbestos**

In France, some of the Group's subsidiaries are subject to civil proceedings in relation to the use of asbestos. These proceedings are initiated by certain employees or former employees suffering from an occupational disease in relation to asbestos with the aim of obtaining a court decision allowing them to obtain a supplementary compensation from the French Social Security (medical) funds.
In the United States, subsidiaries of the Group are also subject to asbestos-related personal injury lawsuits. The Group considers that it has valid defences in these cases and the number of outstanding cases is decreasing.

The Group believes that the cases where it may be required to bear the financial consequences of such civil or criminal proceedings both in France and the United States do not represent a material exposure. While the outcome of the existing asbestos-related cases cannot be predicted with reasonable certainty, the Group believes that these cases will not have any material adverse effect on its financial condition. It can give no assurance, however, that present asbestos-related cases or new cases it may face in the future may not have a material adverse impact on its financial condition.

- **United States Class Action Lawsuit**

The Group has negotiated a settlement for a remaining cost for Alstom of less than € 2 million and closed the class action lawsuits filed on behalf of various purchasers of American Depositary Receipts and other Alstom securities between August 1999 and August 2003 and consolidated in one complaint filed in June 2004.

- **Alleged anti-competitive activities**

GIS equipment

In April 2006, the European Commission commenced proceedings against Alstom, along with a number of other companies, based on allegations of anti-competitive practices in the sale of gas-insulated switchgears ("GIS equipment"), a product of its former Transmission & Distribution business sold to Areva in January 2004, following investigations that began in 2004.

On 24 January 2007, the European Commission levied a fine of €65 million against Alstom which includes €53 million on a joint and several basis with Areva T&D. Alstom has requested the cancellation of this decision before the General Court of the European Union. The Court reduced the amount of fines levied against Alstom to €58.5 million on 3 March 2011. Alstom has decided to appeal this decision before the Court of Justice of the European Union. The acquisition of the Transmission activities of Areva T&D on 7 June 2010 has no impact on Alstom's exposure.

Following the aforementioned European Commission decision of 24 January 2007, on 17 November 2008 National Grid commenced a civil action before the High Court of Justice in London to obtain damages against the manufacturers of GIS equipment, including Alstom and certain of its subsidiaries. National Grid asserts that it has suffered overall alleged damages from all manufacturers concerned of GBP 249.3 million in total since it bought GIS equipment at inflated prices due to alleged anti-competitive arrangements between manufacturers. Alstom contests the facts. On 12 June 2009, the High Court of Justice in London decided a stay of proceeding until the European Commission decision of 24 January 2007 is final. During fiscal year 2010/11, two other similar civil actions have been started before national jurisdictions for a global amount of €24 million.

Power transformers

On 20 November 2008, the European Commission sent a statement of objections to a number of manufacturers of power transformers, including Alstom, concerning their alleged participation in anti-competitive arrangements. Alstom has contested the materiality of the alleged facts. On 7 October 2009, the European Commission levied a fine of €16.5 million against Alstom which includes €13.5 million on a joint and several basis with Areva T&D. Alstom has requested the cancellation of the decision before the General Court of the European Union on 21 December 2009. The date when the hearings will take place is not yet known and a Court decision should not occur before 2012.

German proceedings

The Group received a statement of objections issued by the German Federal Cartel Office ("FCO") on 22 December 2008, alleging breaches of German competition law in the field of steam generators for lignite-fired power plants. On 12 August 2010, the FCO levied a fine of €91 million against ALSTOM Power Systems GmbH and two of its former officers, as well as against two competitors now bankrupt for alleged cartel arrangements between 1990 and 2003. Alstom has requested a reconsideration of this decision and believes it has strong legal arguments to reduce this amount. In addition civil actions from large customers cannot be excluded.

- **Alleged illegal payments**

Certain companies and/or current and former employees of the Group have been or are currently being investigated in various countries with respect to alleged illegal payments. These procedures may result in fines, exclusion of Group subsidiaries from public tenders and third-party actions. In France, on 6 October 2010, a Group's subsidiary in the Hydro business was formally charged for alleged illegal payments concerning past operations in Zambia. The Group considers that there is no matter for a breach of law and has pleaded that the criminal investigation, which is now closed, should end up favourably. The World Bank has also launched an investigation for alleged illegal payments concerning past operations in Zambia. The sanctions the World Bank may impose range from penalties to disbarment from all or part of the projects financed by the World Bank, which may have a significant adverse effect on the image, results and financial situation of the Group.

- **US litigation following an accident in the Washington D.C. metro**

On 22 June 2009, a collision between two metro trains occurred in the Washington D.C. metro resulting in the death of 9 persons and the injury of 52 persons. At present, 23 lawsuits, consolidated in one single lawsuit, have already been filed against Alstom Signaling Inc. and other defendants not belonging to the Group. The claims against Alstom Signaling Inc. amount in excess of $475 million as of today. A report of the National Transportation Safety Board on the causes of the accident partially implicated equipment supplied by Alstom Signaling Inc. However it is too early to definitively determine the precise causes of the accident, resulting liabilities and the total amount of claims. These claims have been declared to the Group's insurers and Alstom believes it has adequate insurance coverage.

- **Budapest metro**

In 2006, Alstom was awarded by BKV a contract for the delivery of 22 Metropolis metros for Line 2 and 15 metros for Line 4 for the city of Budapest. During the execution of the project, Alstom experienced delays mostly related to technical change requests from BKV and the refusal by the Hungarian Authority "NKH" to deliver the final train homologation. In August 2007, NKH granted a Preliminary Type License, but, in October 2010, NKH refused to grant the final homologation ("Final Type License"). On 19 October 2010 BKV terminated the contract and called immediately thereafter all bank guarantees amounting in total to approximately €130 million. On 25 October 2010, the French Court of Nanterre served a provisional injunction and ordered the bank not to pay considering that BKV manifestly misused its right to call the bank guarantees. BKV has appealed this decision before the French Court of Versailles. In addition, Alstom commenced an arbitration procedure on 21 January 2011.

- **Lignite-fired station in Maritza**

In 2006, Alstom was awarded by AES a contract for the manufacture of a lignite-fired station in Maritza, Bulgaria. During the execution of the project, Alstom experienced delays and works disruptions mostly due to the defective nature of the lignite supplied by AES. In March 2011, AES terminated the contract. Prior to termination, AES called its performance bank guarantee up to approximately €150 million. On 10 February 2011, the French Court of Nanterre served a provisional injunction and ordered the bank not to pay, considering that AES manifestly misused its right to call the bank guarantee. AES has appealed this decision before the French Court of Versailles. In addition, Alstom commenced an arbitration procedure on 22 January 2011.

There are no other governmental, legal or arbitration procedures, including proceedings of which the Group is aware and which are pending or threatening, which might have, or have had during the last twelve months, a significant impact on the financial situation or profitability of the Group.

ALSTOM

NOTE 29. LEASE OBLIGATIONS

(in € million)	**Total**	**Maturity of lease payments**		
		Within 1 year	**1 to 5 years**	**Over 5 years**
Long term rental *(1)*	556	57	202	297
Capital leases	160	27	84	49
Operating leases	375	152	129	94
Total at 31 March 2011	**1,091**	**236**	**415**	**440**
Long term rental *(1)*	427	25	104	298
Capital leases	179	28	75	76
Operating leases	306	54	148	104
Total at 31 March 2010	**912**	**107**	**327**	**478**
Long term rental *(1)*	429	20	98	311
Capital leases	189	28	80	81
Operating leases	214	40	108	66
Total at 31 March 2009	**832**	**88**	**286**	**458**

(1) Obligations related to lease of trains and associated equipments (see Note 24) including interests to be paid.

NOTE 30. INDEPENDENT AUDITORS' FEES

Fees due to auditors and members of their networks in respect of years ended 31 March 2011 and 31 March 2010 were as follows:

(in € million)	Year ended 31 March 2011				Year ended 31 March 2010			
	Mazars		PricewaterhouseCoopers		Mazars		PricewaterhouseCoopers	
	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
Independent Auditors' diligence, certification, review of individual and consolidated accounts	7.2	95	12.1	93	5.1	96	8.8	80
. Alstom SA	*0.7*	*9*	*1.6*	*12*	*0.8*	*16*	*1.2*	*11*
. Controlled entities	*6.5*	*86*	*10.6*	*81*	*4.3*	*80*	*7.6*	*69*
Other audit diligence and audit related services	0.3	4	0.6	5	0.2	4	0.8	7
. Alstom SA	-	-	*0.1*	*1*	-	-	*0.1*	*1*
. Controlled entities	*0.3*	*4*	*0.5*	*4*	*0.2*	*4*	*0.7*	*6*
Sub-total	**7.5**	**99**	**9.6**	**98**	**5.3**	**100**	**9.6**	**87**
Tax services	0.1	1	0.3	2	-	-	1.4 (1)	13
Other	-	-	-	-	-	-	-	-
Sub-total	**0.1**	**1**	**0.3**	**2**	**-**	**-**	**1.4**	**13**
TOTAL	**7.6**	**100**	**13.0**	**100**	**5.3**	**100**	**11.0**	**100**

(1) Tax services related to foreign entities. These services were pre approved by the Audit Comittee and are compliant with French independance rules and Alstom's requirements.
These tax services were mainly transferred to other service providers during the fiscal year 2009-2010.

NOTE 31. RELATED PARTIES

Shareholders of the Group

To the Group's knowledge, the only shareholder holding more than 6% of the parent company's share capital is Bouygues, a French company listed on Paris stock market. At 31 March 2011, Bouygues holds a 30.8% stake in Alstom share capital.

In November 2009, Bouygues has exercised a put option over its 50% equity interest in Alstom Hydro Holding in exchange for 4,400,000 Alstom shares. The transaction has been finalised in March 2010 (see Note 24).
No material transactions have been carried out with Bouygues during the financial year ended 31 March 2011.

Associates

No material transactions have been carried out with associates during the period ended 31 March 2011.

Recorded expense in respect of compensation and related benefits attributable to key management personnel during the year

The Group considers that key management personnel as defined by IAS 24 are the members of the Executive Committee at 31 March 2011.

	Year ended		
(in € thousand)	**31 March 2011**	**31 March 2010**	**31 March 2009**
Short-term benefits	**6,700**	**5,955**	**6,025**
Fixed gross salaries (1)	*3,995*	*3,450*	*3,225*
Variable gross salaries	*2,705*	*2,505*	*2,800*
Post-employment benefits	**1,334**	**3,986**	**788**
Post-employment defined benefit plans	*1,204*	*3,876*	*681*
Post-employment defined contribution plans	*130*	*110*	*107*
Other post-employment benefits	-	-	-
Other benefits	**1,585**	**1,721**	**3,521**
Non monetary benefits	*25*	*24*	*24*
Share-based payments (2)	*1,560*	*1,697*	*3,497*
Total	**9,619**	**11,662**	**10,334**

(1) Fixed gross salaries do not included directors fees that amount to € 661 thousand at 31 March 2011, € 629 thousand at 31 March 2010 and € 538 thousand at 31 March 2009.

(2) Expense recorded in the income statement in respect of stock option plans and performance shares.

NOTE 32. SUBSEQUENT EVENTS

On 20 April 2011, Alstom and Shanghai Electric Group announce the signing of a letter of intent for the creation of Alstom-Shanghai Electric Boilers Co, a 50/50 joint company combining both partners'activities in the boiler market for power plants.

NOTE 33. MAJOR COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

The major companies of the Group are listed below and selected according to one of the following criteria: significant holding companies or sales above €100 million for the year ended 31 March 2011. The list of all consolidated companies is available upon request at the head office of the Group.

Parent company

Companies	Country	Ownership %	Consolidation Method
ALSTOM	France	-	Parent company

Holding companies

Companies	Country	Ownership %	Consolidation Method
ALSTOM Holdings	France	100%	Full consolidation
ALSTOM Power Holdings SA	France	100%	Full consolidation
ALSTOM Grid SAS	France	100%	Full consolidation
ALSTOM Deutschland AG	Germany	100%	Full consolidation
ALSTOM Spa	Italy	100%	Full consolidation
ALSTOM NV	Netherlands	100%	Full consolidation
ALSTOM Espana IB SA Holding	Spain	100%	Full consolidation
ALSTOM (Switzerland) Ltd	Switzerland	100%	Full consolidation
ALSTOM UK Holdings Ltd	United Kingdom	100%	Full consolidation
ALSTOM Inc	United States	100%	Full consolidation

Industrial companies

Companies	Country	Ownership %	Consolidation Method
ALSTOM Limited (Australia)	Australia	100%	Full consolidation
ALSTOM Grid Australia Ltd	Australia	100%	Full consolidation
ALSTOM Belgium SA	Belgium	100%	Full consolidation
ALSTOM Brasil Energia e Transporte Ltda	Brazil	100%	Full consolidation
ALSTOM Grid Energia Ltda	Brazil	100%	Full consolidation
ALSTOM Power & Transport Canada Inc.	Canada	100%	Full consolidation
ALSTOM Grid Canada, Inc	Canada	100%	Full consolidation
Tianjin ALSTOM Hydro Co. Ltd	China	99%	Full consolidation
ALSTOM Hydro France	France	100%	Full consolidation
ALSTOM Power Service	France	100%	Full consolidation
ALSTOM Power Systems SA	France	100%	Full consolidation
ALSTOM Transport SA	France	100%	Full consolidation
ALSTOM Grid GmbH	Germany	100%	Full consolidation
ALSTOM Power Energy Recovery GmbH	Germany	100%	Full consolidation
ALSTOM Power Service GmbH	Germany	100%	Full consolidation
ALSTOM Power Systems GmbH	Germany	100%	Full consolidation
ALSTOM Transport Deutschland GmbH	Germany	100%	Full consolidation
ALSTOM Projects India Ltd	India	68%	Full consolidation
AREVA T&D India Limited	India	72%	Full consolidation
PT ALSTOM Grid	Indonesia	95%	Full consolidation
ALSTOM Ferrovaria S.p.A	Italy	100%	Full consolidation
ALSTOM Power Italia Spa	Italy	100%	Full consolidation
ALSTOM K.K.	Japan	100%	Full consolidation
Cerrey - Babcock & Wilcox	Mexico	25%	Equity method
ALSTOM Mexicana S.A. de C.V.	Mexico	100%	Full consolidation
ALSTOM Power Nederland B.V.	Netherlands	100%	Full consolidation
ALSTOM Power Sp.z o.o.	Poland	100%	Full consolidation
ALSTOM S&E Africa (Pty) Ltd	South Africa	100%	Full consolidation
ALSTOM Hydro Spain S.L.	Spain	100%	Full consolidation
ALSTOM Transporte SA	Spain	100%	Full consolidation
ALSTOM Wind SL	Spain	100%	Full consolidation
ALSTOM Power Sweden AB	Sweden	100%	Full consolidation
ALSTOM (Switzerland) Ltd	Switzerland	100%	Full consolidation
AP O&M Ltd.	Switzerland	100%	Full consolidation
AREVA T&D Enerji Endustrisi A.S	Turkey	100%	Full consolidation
ALSTOM Ltd	United Kingdom	100%	Full consolidation
ALSTOM Grid UK LTD	United Kingdom	100%	Full consolidation
ALSTOM Grid Inc.	United States	100%	Full consolidation
ALSTOM Power Inc.	United States	100%	Full consolidation
ALSTOM Transportation Inc.	United States	100%	Full consolidation
AP Com Power Inc.	United States	100%	Full consolidation

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Standard Credit Information

Federal ID#:	11-2949993
D & B Number:	05-318-2341
Billing Address:	Attn: Accounts Payable ALSTOM Transportation Inc. 1025 John Street West Henrietta, NY 14586
Telephone Information:	Office – (585) 279-2125 Fax # - (585) 279-1886
Bank References: .	Trade and Credit Information Department HSBC Bank USA, N.A. SWIFT Code MRMDUS33 Account #: 000168769 Fed Wire Routing / ABA #: 021001088 ACH Routing / ABA #: 022000020 Fax: (716) 730-3083 or (716) 841-2793

Trade References:

Wabtec Inc. Attn: Credit Dept. PO Box 3330 Spartanburg, SC 29334 Office – (864) 433-5900 Fax # – (864) 433-6338	Bradley Supply Attn: Debbie Bradley 25 N. Transit Dr. Hornell, NY 14843 Office – (607) 324-4130 Fax # – (607) 324-2799	Advanced Transit Manufacturing Attn: Barry Walsh 14 South Main St. Canisteo, NY 14823 Office – (607) 698-4606 Fax # – (607) 698-4851

Corporate Officers:

President:	Guillaume Mehlman
Treasurer CFO and VP	Frederic Matsoukis
Asst. Secretary:	Stacey Joslin

Consolidated financial statements

Year ended 31 March 2012

CONSOLIDATED INCOME STATEMENT

(in € million)	Note	Year ended 31 March 2012	Year ended 31 March 2011
Sales	(4)	**19,934**	**20,923**
Cost of sales		(16,144)	(16,938)
Research and development expenses	(5)	(682)	(703)
Selling expenses		(900)	(902)
Administrative expenses		(802)	(810)
Income from operations	(4)	**1,406**	**1,570**
Other income	(6)	3	46
Other expense	(6)	(337)	(852)
Earnings before interest and taxes	(4)	**1,072**	**764**
Financial income	(7)	55	57
Financial expense	(7)	(232)	(193)
Pre-tax income		**895**	**628**
Income tax charge	(8)	(179)	(141)
Share in net income of equity investments	(12)	28	3
Net profit		**744**	**490**
Attributable to:			
- Equity holders of the parent		732	462
- Non controlling interests		12	28
Earnings per share (in €)	(9)		
- Basic earnings per share		2.49	1.57
- Diluted earnings per share		2.46	1.56

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Net profit recognised in income statements	**744**	**490**
Actuarial gains and losses on post-employment benefits	(317)	(183)
Income tax relating to items that will not be reclassified to profit or loss	31	93
Items that will not be reclassified to profit or loss	**(286)**	**(90)**
Fair value ajustments on available-for-sale assets	(13)	12
Fair value ajustments on cash flow hedge derivatives	(29)	(9)
Currency translation adjustments	60	(55)
Income tax relating to items that may be reclassified to profit or loss	4	0
Items that may be reclassified to profit or loss	**22**	**(52)**
Other comprehensive income	**(264)**	**(142)**
Total comprehensive income for the period	**480**	**348**
Attributable to:		
- Equity holders of the parent	473	330
- Non controlling interests	7	18

The accompanying notes are an integral part of the consolidated financial statements

CONSOLIDATED BALANCE SHEET

(in € million)	Note	At 31 March 2012	At 31 March 2011
ASSETS			
Goodwill	(10)	5,483	5,396
Intangible assets	(10)	1,921	1,934
Property, plant and equipment	(11)	2,852	2,651
Associates and non consolidated investments	(12)	531	207
Other non-current assets	(13)	545	567
Deferred taxes	(8)	1,472	1,287
Total non-current assets		**12,804**	**12,042**
Inventories	(14)	3,138	3,363
Construction contracts in progress, assets	(15)	3,752	2,479
Trade receivables	(16)	5,692	6,053
Other current operating assets	(17)	3,557	2,945
Marketable securities and other current financial assets	(18)	13	50
Cash and cash equivalents	(25)	2,091	2,701
Total current assets		**18,243**	**17,591**
Total assets		**31,047**	**29,633**

(in € million)	Note	At 31 March 2012	At 31 March 2011
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent	(20)	4,327	4,060
Non controlling interests		107	92
Total equity		**4,434**	**4,152**
Non-current provisions	(22)	804	1,095
Accrued pension and other employee benefits	(23)	1,417	1,145
Non-current borrowings	(24)	3,863	3,346
Non-current obligations under finance leases	(24)	477	491
Deferred taxes	(8)	176	88
Total non-current liabilities		**6,737**	**6,165**
Current provisions	(22)	1,414	1,387
Current borrowings	(24)	634	578
Current obligations under finance leases	(24)	48	51
Construction contracts in progress, liabilities	(15)	9,508	9,166
Trade payables		4,080	4,071
Other current operating liabilities	(26)	4,192	4,063
Total current liabilities		**19,876**	**19,316**
Total equity and liabilities		**31,047**	**29,633**

The accompanying notes are an integral part of the consolidated financial statements

ALSTOM

CONSOLIDATED STATEMENT OF CASH FLOWS

(in € million)	Note	Year ended 31 March 2012	Year ended 31 March 2011
Net profit		**744**	**490**
Depreciation, amortisation and expense arising from share-based payments		621	671
Post-employment and other long-term defined employee benefits		(61)	(150)
Net (gains)/losses on disposals of assets		1	70
Share in net income of associates (net of dividends received)		(27)	0
Deferred taxes charged to income statement		(94)	(107)
Net cash provided by operating activities - before changes in working capital		**1,184**	**974**
Changes in working capital resulting from operating activities	**(19)**	**(968)**	**(743)**
Net cash provided by /(used in) by operating activities		**216**	**231**
Proceeds from disposals of tangible and intangible assets		24	44
Capital expenditure (including capitalised R&D costs)	(4)	(813)	(791)
Increase/(decrease) in other non-current assets		15	(1)
Acquisition of Grid (€- 2,323 million) net of cash acquired (€ 328 million)	(3)	28	(2,023)
Acquisitions of businesses, net of cash acquired		(93)	(242)
Disposals of businesses, net of net cash sold		(73)	(68)
Net cash provided by/(used in) investing activities		**(912)**	**(3,081)**
Capital increase/(decrease)		(1)	9
Dividends paid including payments to non controlling interests		(206)	(378)
Issuance of bonds & notes	(24)	560	1,500
Changes in current and non-current borrowings		13	33
Changes in obligations under finance leases		(42)	(41)
Changes in marketable securities and other current financial assets and liabilities		(237)	57
Net cash provided by/ (used in) financing activities		**87**	**1,180**
Net increase/(decrease) in cash and cash equivalents		**(609)**	**(1,670)**
Cash and cash equivalents at the beginning of the period		2,701	4,351
Net effect of exchange rate variations		-	24
Other changes		(1)	(4)
Cash and cash equivalents at the end of the period		**2,091**	**2,701**
Income tax paid		*(264)*	*(248)*
Net of interests paid & received		*(170)*	*(107)*

(in € million)	Note	Year ended 31 March 2012	Year ended 31 March 2011
Net cash/(debt) variation analysis (*)			
Changes in cash and cash equivalents		(609)	(1,670)
Changes in marketable securities and other current financial assets & liabilities		237	(57)
Changes in bonds and notes		(560)	(1,500)
Changes in current and non-current borrowings		(13)	(33)
Changes in obligations under finance leases		42	41
Net debt of acquired entities at acquisition date and other variations		(303)	(289)
Decrease/ (increase) in net debt		*(1,206)*	*(3,508)*
Net cash/(debt) at the beginning of the period		**(1,286)**	**2,222**
Net cash/(debt) at the end of the period		**(2,492)**	**(1,286)**

(*) The net cash/(debt) is defined as cash and cash equivalents, marketable securities and other current financial assets and non-current financial assets directly associated to liabilities included in financial debt (see Note 13), less financial debt (see Note 24).

The accompanying notes are an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in € million, except for number of shares)	Number of outstanding shares	Capital	Additional paid-in capital	Retained earnings	Other comprehensive income	Equity attributable to the equity holders of the parent	Non controlling interests	Total equity
At 31 March 2010	**293,841,996**	**2,057**	**619**	**2,616**	**(1,201)**	**4,091**	**10**	**4,101**
Movements in other comprehensive income	-	-	-	-	(132)	**(132)**	(10)	**(142)**
Net income for the period	-	-	-	462	-	**462**	28	**490**
Total comprehensive income	-	-	-	462	(132)	**330**	18	**348**
Conversion of ORA	275	-	-	-	-	**-**	-	**-**
Change in scope and other		-	-	(25)	9	**(16)**	76	**60**
Dividends paid		-	-	(364)	-	**(364)**	(12)	**(376)**
Issue of ordinary shares under long term incentive plans	577,033	4	5	(1)	-	**8**	-	**8**
Recognition of equity settled share-based payments		-	-	11	-	**11**	-	**11**
At 31 March 2011	**294,419,304**	**2,061**	**624**	**2,699**	**(1,324)**	**4,060**	**92**	**4,152**
Movements in other comprehensive income	-	-	-	-	(259)	**(259)**	(5)	**(264)**
Net income for the period	-	-	-	732	-	**732**	12	**744**
Total comprehensive income	-	-	-	732	(259)	**473**	7	**480**
Change in scope and other	3,799	-	-	(32)	-	**(32)**	21	**(11)**
Dividends paid	-	-	-	(183)	-	**(183)**	(13)	**(196)**
Capital reduction	(200,000)	(1)	(4)	-	-	**(5)**	-	**(5)**
Issue of ordinary shares under long term incentive plans	310,577	2	2	(1)	-	**3**	-	**3**
Recognition of equity settled share-based payments		-	-	11	-	**11**	-	**11**
At 31 March 2012	**294,533,680**	**2,062**	**622**	**3,226**	**(1,583)**	**4,327**	**107**	**4,434**

The accompanying notes are an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Presentation of the Group

Alstom ("the Group") serves the power generation and transmission markets through its Thermal Power, Renewable Power and Grid Sectors, and the rail transport market through its Transport Sector. The Group designs, supplies, and services a complete range of technologically-advanced products and systems for its customers, and possesses a unique expertise in systems integration and through-life maintenance and services.

On 15 June 2011, the Chief Executive Officer announced the reshaping of the operational activities of the Group into four Sectors. The reorganisation has been effective starting from 4 July 2011.

Alstom has undergone a period of strong growth, followed by the necessary adaptation to a tougher economic environment created by the crisis. As the company is experiencing a rebound in orders, this new organisation allows the Group to better anticipate the structural changes in its business, accelerate its development and achieve its performance objectives. It strengthens the Group's ability to address strategic moves, focus the Sectors on their operational objectives (commercial efficiency, product development, quality and project execution) and simplify the ways of working (quicker and leaner decision making processes, and empowerment).
The operational activities of the Group, which were until that date split into three Sectors (Power, Grid and Transport) are now organised in four Sectors (Thermal Power, Renewable Power, Grid and Transport). The split of the current Power Sector into two Sectors, Thermal and Renewable, simplifies the management of both entities and better addresses their specific markets.

The operational activities of the Group are organised in four Sectors:

- **Thermal Power**

Thermal Power offers a comprehensive range of power generation solutions using gas or coal from integrated power plants and all types of turbines, generators, boilers, emission control systems to a full range of services including plant modernisation, maintenance and operational support. The Sector also supplies conventional islands for nuclear power plants.

- **Renewable Power**

Renewable Power offers EPC solutions, turbines and generators, control equipment and maintenance for hydro power and wind power activities. The Sector includes geothermal and solar thermal businesses.

- **Grid**

The Grid Sector designs and manufactures equipment and engineered turnkey solutions to manage power grids and transmit electricity from the power plant to the large end-user, be it a distribution utility or an industrial process or production facility.

- **Transport**

The Transport Sector serves the urban transit, regional/intercity passenger travel markets and freight markets all over the world with rail transport products, systems and services.

Thermal Power and Renewable Power activities were aggregated in a single Power sector in the consolidated financial statements for the year ended 31 March 2011. Comparative segment information has been restated following the split of the former Power Sector implemented in the first months of the current financial year.

Grid activities have been consolidated starting from the date of their acquisition by the Group (7 June 2010). Comparative figures for financial year ended 31 March 2011 are therefore not representative of a full 12-month period.

The consolidated financial statements are presented in euro and have been authorised for issue by the Board of Directors held on 3 May 2012. In accordance with French legislation, they will be final once approved by the shareholders of Alstom at the Annual General Meeting convened for 26 June 2012.

Note 2. Accounting policies

2.1 Basis of preparation of the consolidated financial statements

Alstom consolidated financial statements for the year ended 31 March 2012 have been prepared:

- in accordance with the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) and endorsed by the European Union and whose application was mandatory as of 1 April 2011;
- using the same accounting policies and measurement methods as at 31 March 2011, with the exceptions of changes required by the enforcement of new standards and interpretations as described below.

The information relating to consolidated financial statements for the fiscal year ended 31 March 2010, presented in the 2010/11 registration document D.11-0522 filed with the AMF on 26 May 2011 is included by reference.
The full set of standards endorsed by the European Union can be consulted on the website of the European Commission at:
http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

2.1.1.Changes in accounting policies due to new, revised or amended standards and interpretations mandatorily applicable for financial periods beginning on 1 April 2011

The Group's consolidated financial statements are not affected by the enforcement of the new, revised, or amended standards and interpretations becoming effective in the European Union starting from 1 April 2011.

2.1.2. New standards and interpretations not yet mandatorily applicable

The Group has opted for an early application of the amendment to IAS 1, Presentation of items of other comprehensive income. This amendment requests the distinction between comprehensive income elements that will be reclassified in profit or loss and elements that will not. This amendment does not have a material impact on the presentation of the Group's published consolidated statement of comprehensive income.

The Group has not opted for an early application in the consolidated financial statements at 31 March 2012 of the following forthcoming IFRS requirements already published by the IASB but not yet approved by the European Union:

- Financial instruments: classification and measurement of financial assets (IFRS 9)
- Consolidated financial statements (IFRS 10)
- Joint arrangements (IFRS 11)
- Disclosure of interests in other entities (IFRS 12)
- Investments in associates and joint ventures (IAS 28 revised)
- Fair value measurement (IFRS 13)
- Employee benefits (IAS 19 revised)
- Financial instruments disclosures (amendments to IFRS 7)

The Group is currently considering the impact of applying these new standards for the first time, in particular IFRS 10, Consolidated financial statements; IFRS 11, Joint arrangements and the amended IAS 19, Employee Benefits.

- IFRS 10 Consolidated financial statements

  This standard defines control as being exercised when an investor is exposed, or has rights, to variable returns from his involvement with the investee and has the ability to affect those returns through his power over the investee. The Group is currently assessing the potential impact of the first-time application of that standard.

- IFRS 11 Joint arrangements

  The new standard mainly prescribes two different accounting treatments:
  - Joint arrangements qualifying as joint operations will be recognised based on the proportion of assets, liabilities, revenue and expenses controlled by the Group. A joint operation may be conducted under a separate vehicle or not.
  - Joint arrangements that are qualified as joint ventures will be accounted for using the equity method, because the parties have rights to the net assets of the arrangement.

  The Group is currently analysing its jointly controlled entities in light of IFRS 11, Joint arrangements so as to determine if they shall be classified as joint operations or joint ventures. However, as the contribution of these entities to the Group's main financial indicators is currently not material, the impact of applying this new standard on the consolidated financial statements should be limited.

The consolidation standards (IFRS 10, IFRS 11 and IFRS 12), published in May 2011 are of mandatory application as of 1 January 2013, subject to EU endorsement.

- Amendment to IAS 19 Employee benefits:

  This amendment eliminates the option of applying the corridor approach. As a result, all actuarial gains and losses and past service costs will be recognized immediately in liabilities. Actuarial gains and losses for each period will be recorded systematically in "other comprehensive income" and past service costs will be recorded in the income statement. The amendment also specifies the calculation of the expected return on plan assets on the basis of the discount rate used to value the defined benefit obligation rather than on the basis of market expectations for returns.

  The Group does not apply the corridor approach and already records all actuarial gains and losses in other comprehensive income. The calculation of the expected return on plan assets

on the basis of the discount rate used to value the underlying obligation will increase the net financial expense, but the net impact on the financial statements should not be significant.

The amendment to IAS 19 is of mandatory application as of 1 January 2013, subject to EU endorsement.

2.2. Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make various estimates and to use assumptions regarded as realistic and reasonable. These estimates or assumptions could affect the value of the Group's assets, liabilities, equity, net income and contingent assets and liabilities at the closing date. Management reviews estimates on an on-going basis using information currently available. Actual results may differ from those estimates, due to changes in facts and circumstances.

The accounting policies most affected by the use of estimates are the following:

- **Revenue and margin recognition on construction and long-term service contracts and related provisions**

The Group recognises revenue and gross margin on construction and long-term service contracts using the percentage of completion method based on milestones; in addition, when a project review indicates a negative gross margin, the loss related to work not yet performed is immediately recognised.

Recognised revenue and margin are based on estimates of total expected contract revenue and cost, which are subject to revisions as the contract progresses. Total expected revenue and cost on a contract reflect management's current best estimate of the probable future benefits and obligations associated with the contract. Assumptions to calculate present and future obligations take into account current technology as well as the commercial and contractual positions, assessed on a contract-by-contract basis. The introduction of technologically-advanced products exposes the Group to risks of product failure significantly beyond the terms of standard contractual warranties applicable to suppliers of equipment only.

Obligations on contracts may result in penalties due to late completion of contractual milestones, or unanticipated costs due to project modifications, suppliers or subcontractors' failure to perform or delays caused by unexpected conditions or events. Warranty obligations are affected by product failure rates, material usage and service delivery costs incurred in correcting failures.

Although the Group makes individual assessments on contracts, there is a risk that actual costs related to those obligations may exceed initial estimates. Estimates of contract costs and revenues at completion in case of contracts in progress and estimates of provisions in case of completed contracts may then have to be re-assessed.

- **Estimate of provisions relating to litigations**

The Group identifies and analyses on a regular basis current litigations and measures, when necessary, provisions on the basis of its best estimate of the expenditure required to settle the obligation at the balance sheet date. These estimates take into account information available and different possible outcomes.

- **Valuation of deferred tax assets**

Management judgment is required to determine the extent to which deferred tax assets can be recognised. Future sources of taxable income and the effects of the Group global income tax strategies are taken into account in making this determination. This assessment is conducted through a detailed review of deferred tax assets by jurisdiction and takes into account past, current and future performance deriving from the existing contracts in the order book, the budget and the three-year plan, and the length of carry back, carry forwards and expiry periods of net operating losses.

- **Measurement of post-employment and other long-term defined employee benefits**

The measurement of obligations and assets related to defined benefit plans makes it necessary to use several statistical and other factors that attempt to anticipate future events. These factors include assumptions about the discount rate, the expected return on plan assets, the rate of future compensation increases as well as withdrawal and mortality rates. If actuarial assumptions materially differ from actual results, it could result in a significant change in the employee benefit expense recognised in the income statement, actuarial gains and losses recognised in other comprehensive income and prepaid and accrued benefits.

- **Valuation of assets**

The discounted cash flow model used to determine the recoverable value of the groups of cash generating units to which goodwill is allocated includes a number of inputs including estimates of future cash flows, discount rates and other variables, and then requires significant judgment.

Impairment tests performed on intangible and tangible assets are also based on assumptions. Future adverse changes in market conditions or poor operating results from underlying assets could result in an inability to recover their current carrying value.

- **Inventories**

Inventories, including work in progress, are measured at the lower of cost or net realisable value. Write-down of inventories are calculated based on an analysis of foreseeable changes in demand, technology or market conditions in order to determine obsolete or excess inventories. If actual market conditions are less favourable than those projected, additional inventory write-downs may be required.

2.3. Significant accounting policies

2.3.1. Consolidation methods

Subsidiaries

Entities over which the Group exercises exclusive control are fully consolidated. Exclusive control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities, whether it holds shares or not.

Inter-company balances and transactions are eliminated.

Results of operations of subsidiaries acquired or disposed of during the year are recognised in the consolidated income statement as from the date of acquisition or up to the date of disposal, respectively.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the equity attributable to the equity holders of the parent. Non-controlling interests consist of the amount of those interests at the date of the original business combination and their share of changes in equity since the date of the combination. In the absence of explicit agreements to the contrary, subsidiaries' losses are systematically allocated between equity holders of the parent and minority interests based on their respective ownership interests even if this results in the minority interests having a deficit balance.

Interests in joint ventures

Entities over which the Group exercises joint control are consolidated according to the proportionate consolidation method whereby the Group's share of the joint ventures' results, assets and liabilities is recorded in the consolidated financial statements. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in associates

Entities in which the Group exercises significant influence but not control, are accounted for under the equity method. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost, including any goodwill arising and transaction costs. Earn-outs are initially recorded at fair value and adjustments recorded through cost of investment when their payments are probable and can be measured with sufficient reliability.

The Group's share of its associates' profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Losses of an associate in excess of the Group's interest in that associate are not recognised, except if the Group has a legal or implicit obligation.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

2.3.2 Translation of financial statements denominated in currencies other than euro

Functional currency is the currency of the primary economic environment in which a reporting entity operates, which in most cases, corresponds to the local currency. However, some reporting entities may have a functional currency different from local currency when that other currency is used for the entity's main transactions and faithfully reflects its economic environment.

Assets and liabilities of entities whose functional currency is other than the euro are translated into euro at closing exchange rate at the end of each reporting period while their income and cash flow statements are translated at the average exchange rate for the period. The currency translation adjustments resulting from the use of different currency rates for opening balance sheet positions, transactions of the period and closing balance sheet positions are recorded in other comprehensive income. Translation adjustments are transferred to the consolidated income statement at the time of the disposal of the related entity.

Goodwill and fair value adjustments arising from the acquisition of entities whose functional currency is not euro are designated as assets and liabilities of those entities and therefore

denominated in their functional currencies and translated at the closing rate at the end of each reporting period.

2.3.3 Business combinations

Business combinations completed between 1 January 2004 and 31 March 2010 have been recognised applying the provisions of the previous version of IFRS 3.
Business combinations completed from 1 April 2010 onwards are recognised in accordance with IFRS 3 Revised.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the sum of fair values of the assets transferred and the liabilities incurred by the acquirer at the acquisition date and the equity-interest issued by the acquirer. The consideration transferred includes contingent consideration, measured and recognized at fair value, at the acquisition date.

Earn-outs are initially recorded at fair value and adjustments made beyond the 12-month measurement period following the acquisition are systematically recognised through profit or loss.

Acquisition-related costs are recorded as an expense in the period in which they are incurred.

Goodwill arising from a business combination is measured as the difference between:

- the fair value of the consideration transferred for an acquiree plus the amount of any non-controlling interests of the acquiree; and
- the net fair value of the identifiable assets acquired and liabilities assumed at the acquisition date.

Initial estimates of consideration transferred and fair values of assets acquired and liabilities assumed are finalised within twelve months after the date of acquisition and any adjustments are accounted for as retroactive adjustments to goodwill. Beyond this twelve-month period, any adjustment is directly recognised in the income statement.

For each business combination, any non-controlling interest in the acquiree may be measured either at the acquisition-date fair value, leading to the recognition of the non-controlling interest's share of goodwill (full goodwill method) or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, resulting in recognition of only the share of goodwill attributable to equity holders of the parent (partial goodwill method).

Goodwill is not amortised but tested for impairment at least annually at closing date.

In case of a step-acquisition that leads to the Group acquiring control of the acquiree, the equity interest previously held by the Group is remeasured at its acquisition-date fair value and any resulting gain or loss is recognised in profit or loss.

2.3.4. Segment information

Operating segments used to present segment information are identified on the basis of internal reports used by the Chief Executive Officer (CEO) to allocate resources to the segments and assess their performance. There is no segment aggregation.
The Chief Executive Officer is the Group's "chief operating decisions maker" within the meaning of IFRS 8.
The methods used to measure the key performance indicators of the segments for internal reporting purposes are the same as those used to prepare the consolidated financial statements.

2.3.5. Sales and costs generated by operating activities

Measurement of sales and costs
The amount of revenue arising from a transaction is usually determined by the contractual agreement with the customer. In the case of construction contracts, claims are considered in the determination of contract revenue only when it is highly probable that the claim will result in additional revenue and the amount can be reliably estimated.
Penalties are taken into account in reduction of contract revenue as soon as they are probable.

Production costs include direct costs (such as material, labour and warranty costs) and indirect costs. On the basis of funding required for the execution of contracts, borrowing costs may be attributed to construction contracts whose execution period exceeds one year. Warranty costs are estimated on the basis of contractual agreement, available statistical data and weighting of all possible outcomes against their associated probabilities. Warranty periods may extend up to five years. Selling and administrative expenses are excluded from production costs.

Recognition of sales and costs
Revenue on sale of manufactured products is recognised when the significant risks and rewards of ownership are transferred to the customer, which generally occurs on delivery. Revenue on short-term service contracts is recognised on performance of the related service. All production costs incurred or to be incurred in respect of the sale are charged to cost of sales at the date of recognition of sales.

Revenue on construction contracts and long-term service agreements is recognised based on the percentage of completion method: the stage of completion is assessed by milestones which ascertain the completion of a physical proportion of the contract work or the performance of services provided for in the agreement. The revenue for the period is the excess of revenue measured according to the percentage of completion over the revenue recognised in prior periods.

Cost of sales on construction contracts and long-term service agreements is computed on the same basis. The cost of sales for the period is the excess of cost measured according to the percentage of completion over the cost of sales recognised in prior periods. As a consequence, adjustments to contract estimates resulting from work conditions and performance are recognised in cost of sales as soon as they occur, prorated to the stage of completion.

When the outcome of a contract cannot be estimated reliably but the contract overall is expected to be profitable, revenue is still recognised based on milestones, but margin at completion is adjusted to nil.

When it is probable that contract costs at completion will exceed total contract revenue, the expected loss is recognised immediately as an expense.
Bid costs are directly recorded as expenses when a contract is not secured.

With respect to construction contracts and long-term service agreements, the aggregate amount of costs incurred to date *plus* recognised margin *less* progress billings is determined on a contract-by-contract basis. If the amount is positive, it is included as an asset designated as "Construction contracts in progress, assets". If the amount is negative, it is included as a liability designated as "Construction contracts in progress, liabilities".
The caption "Construction contracts in progress, liabilities" also includes down payments received from customers.

Recognition of overhead expenses

Research expenditure is expensed as incurred. Development costs are expensed as incurred unless the project they relate to meets the criteria for capitalisation (see Note 2.3.10). Selling and administrative expenses are expensed as incurred.

2.3.6. Income from operations

Income from operations is the indicator used by the Group to present the level of operational performance that can be used as part of an approach to forecast recurring performance. This complies with the recommendation 2009-R03 of the ANC, the French standard setter, on the format of financial statements of entities applying IFRS.
Income from operations includes gross margin, research and development expenditure, selling and administrative expenses. It includes in particular the service cost of employee defined benefits, the cost of share-based payments and employee profit sharing, foreign exchange gains or losses associated with operating transactions and capital gains (losses) on disposal of intangible and tangible assets arising from ordinary activities.

2.3.7. Other income and other expenses

Other income and other expenses are representative of items which are inherently difficult to predict due to their unusual, irregular or non-recurring nature.

Other income may include capital gains on disposal of investments or activities and capital gains on disposal of tangible and intangible assets arising from activities disposed of or facing restructuring plans as well as any income associated to past disposals.

Other expenses include capital losses on disposal of investments or activities and capital losses on disposal of tangible and intangible assets arising from activities disposed of or facing restructuring plans as well as any costs associated to past disposals, restructuring costs, costs incurred to effect business combinations and amortisation expense of assets exclusively acquired in the context of business combinations (margin in backlog, customer relationship, margin on inventory), significant impairment losses on assets, litigation costs that have arisen outside the ordinary course of business and a portion of post-employment and other long-term defined benefit expense (amortisation of unrecognised prior service cost, impacts of curtailments and settlements and amortisation of actuarial gains and losses referring to long-term benefits other than post-employment benefits).

2.3.8. Financial income and expense

Financial income and expense include:

- Interest income representing the remuneration of the cash position,
- Interest expense related to the financial debt (financial debt consists of bonds, the debt component of compound instruments, other borrowings and lease-financing liabilities);
- Other expenses paid to financial institutions for financing operations;
- The financial component of the cost of employee defined benefits (interest cost and expected return on assets);
- Dividends received from non consolidated investments;
- Foreign exchange gains and losses associated to financing transactions;
- Other income or expense from cash and cash equivalents and marketable securities.

2.3.9. Foreign currency transactions

Foreign currency transactions are initially recognised by applying to the foreign currency amount the spot exchange rate between the functional currency of the reporting unit and the foreign currency at the date of the transaction. Currency units held, assets to be received and liabilities to be paid resulting from those transactions are re-measured at closing exchange rates at the end of each reporting period. Realised exchange gains or losses at date of payment as well as unrealised gains or losses deriving from re-measurement are recorded within income from operations when they relate to operating activities or within financial income or expense when they relate to financing activities.

Since the Group is exposed to foreign currency volatility, the Group puts in place a significant volume of hedges to cover this exposure. These derivatives are recognised on the balance sheet at their fair value at the closing date. Providing that the relationships between the foreign currency exposure and the related derivatives are qualifying relationships, the Group uses the specific accounting treatments designated as hedge accounting. A relationship qualifies for hedge accounting if, at the inception of the hedge, it is formally designated and documented and if it proves to be highly effective throughout the financial reporting periods for which the hedge was designated.

Hedging relationships may be of two types:
- Cash flow hedge in case of hedge of the exposure to variability of cash flows attributable to highly probable forecast transactions;
- Fair value hedge in case of hedge of the exposure attributable to recognised assets, liabilities or firm commitments.

Cash flow hedge
When cash flow hedge accounting applies, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the forecast transaction results in the recognition of a financial asset or liability, the amounts previously recognised directly in other comprehensive income are recycled into the income statement. When the forecast transaction results in the recognition of a non financial asset or liability (for instance, inventories or construction contracts in progress), the gain or loss that was directly recognised in other comprehensive income is included in the carrying amount of the asset or liability.

Fair value hedge
When fair value hedge accounting applies, changes in the fair value of derivatives and changes in the fair value of hedged items are both recognised in the income statement and offset each other up to the gain or loss on the effective portion on the hedging instrument.

Whatever the type of hedge, the ineffective portion on the hedging instrument is recognised in the income statement. Realised and unrealised exchange gains and losses on hedged items and hedging instruments are recorded within income from operations when they relate to operating activities or within financial income or expense when they relate to financing activities.

As the effective portion on the hedging instrument offsets the difference between the spot rate at inception of the hedge and the effective spot rate at the outcome of the hedge, sales and costs resulting from commercial contracts are recognised at the spot rate at inception of the hedge throughout the life of the related commercial contracts, provided that the corresponding hedging relationships keep on qualifying for hedge accounting.

The Group also uses export insurance policies to hedge its currency exposure on certain contracts during the open bid period as well as after the award of the contracts. During the bid period, the fair values of these insurance instruments cannot be reliably determined due to the uncertainty on the award of commercial contracts. As a consequence, at that stage, the instruments are not recognised on the balance sheet. When commercial contracts are awarded, insurance

instruments are recognised and remeasured in the same way as foreign currency exchange forward contracts.

2.3.10. Intangible assets

Intangible assets include acquired intangible assets (such as technology and licensing agreements) and internally generated intangible assets (mainly development costs).

Acquired intangible assets

Acquired intangible assets are initially measured at cost and amortised on a straight-line basis over their estimated useful lives. Useful lives can extend to twenty years due to the long-term nature of the underlying contracts and activities. The amortisation expense of assets acquired through ordinary transactions is recorded in cost of sales, research and development expenditure, selling expenses or administrative expenses, based on the function of the underlying assets. The amortisation expense of assets exclusively acquired in the context of a business combination (margin in backlog, customer relationship) is recognised as other expense.

Internally generated intangible assets

Development costs are capitalised if and only if the project they relate to meets the following criteria:

- The project is clearly defined and its related costs are separately identified and reliably measured,
- The technical feasibility of the project is demonstrated,
- The intention exists to complete the project and to use or sell it,
- Adequate technical and financial resources are available to complete the project,
- It is probable that the future economic benefits attributable to the project will flow to the Group.

Capitalised development costs are costs incurred directly attributable to the project (materials, services, fees…), including an appropriate portion of relevant overheads.

Capitalised development costs are amortised on a straight-line basis over the estimated useful life of the asset. The amortisation charge is reported in research and development expenditure.

2.3.11. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss. When an item of property, plant and equipment is made up of components with different useful lives, the total cost is allocated between the various components. Components are then separately depreciated.

Depreciation is computed using the straight-line method over the estimated useful lives of each component. The useful lives most commonly used are the following:

	Estimated useful life in years
Buildings	7-40
Machinery and equipment	3-20
Tools, furniture, fixtures and others	1-10

Useful lives are reviewed on a regular basis and changes in estimates, when relevant, are accounted for on a prospective basis. The depreciation expense is recorded in cost of sales, selling expenses or administrative expenses, based on the function of the underlying assets.

Borrowing costs that are attributable to an asset whose construction period exceeds one year are capitalised as part of the costs of the asset.

Property, plant and equipment acquired through finance lease arrangements or long-term rental arrangements that transfer substantially all the risks and rewards incidental to ownership are capitalised. They are recognised at their fair value at the inception of the lease, or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a financing obligation. Lease payments are apportioned between finance charges and repayment of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the term of the relevant lease, when shorter.

Leases that do not transfer substantially all risks and rewards incidental to ownership are classified as operating leases. Rentals payable are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised on a straight-line basis over the lease term.

2.3.12. Impairment of goodwill, tangible and intangible assets

Goodwill and intangible assets not yet available for use are tested for impairment at least annually or when there are indicators that they may be impaired. Other intangible assets and tangible assets are tested for impairment only if there are indicators of impairment.

The impairment test methodology is based on a comparison between the recoverable amount of an asset and its net carrying value. A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. If an asset does not generate cash inflows that are largely independent of other assets or groups of assets, the recoverable amount is determined for a cash-generating unit.

For internal management purposes, goodwill acquired in a business combination is monitored at the level of the Sectors as defined in Note 1: therefore goodwill is tested for impairment at the level of the group of cash-generating units constituting each Sector.

The recoverable amount is the higher of fair value less costs to sell and value in use. The value in use is elected as representative of the recoverable value. The valuation performed is based upon the Group's internal three-year business plan. Cash flows beyond this period are estimated using a perpetual long-term growth rate for the subsequent years. The recoverable amount is the sum of the discounted cash flows and the discounted terminal residual value. Discount rates are determined using the weighted-average cost of capital of each Sector.

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount and the impairment loss is recognised immediately in the income statement. In the case of goodwill allocated to a group of CGUs, the impairment loss is allocated first to reduce the carrying amount of goodwill and then to the other assets on a pro-rata basis of the carrying amount of each asset.

Impairment losses recognised in respect of goodwill cannot be reversed. The impairment losses recognized in respect of assets or cash-generating units may be reversed in a later period and recognized immediately in the income statement. The carrying amount is increased to the revised estimate of recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized in prior years.

2.3.13. Financial assets

Loans and deposits

Loans are initially measured at their fair value, plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Deposits are reported as financial assets when their initial maturity is more than three months and as cash and cash equivalents in case of demand deposits or when the initial maturity is less than three months.

If there is any indication that those assets may be impaired, they are reviewed for impairment. Any difference between the carrying value and the impaired value (net realisable value) is recorded as a financial expense. The impairment loss can be reversed if the value is recovered in the future. In that case, the reversal of the impairment loss is reported as a financial income.

Investments and debt securities

Investments in non-consolidated companies are designated as available-for-sale financial assets. They are initially measured at their fair value, plus directly attributable transaction costs and subsequently re-measured at fair value.

The fair value of listed securities is the market value at the closing date.

A valuation model is used in case of unlisted securities. Changes in fair value are directly recognised in other comprehensive income until the security is disposed of or is determined to be impaired. On disposal or in case of significant or prolonged decline in the fair value, the cumulative gain or loss previously recognised in other comprehensive income is included in the profit or loss for the period. Unlike impairment losses recognised in respect of investments in a debt instrument, impairment losses recognised in respect of investments in equity instruments cannot be reversed through profit and loss.

When the fair value cannot be determined reliably, investments in non-consolidated companies are measured at cost. Any impairment loss recognised for such investment is not reversed in a subsequent period, except when disposed of.

All debt securities that the Group has the expressed intention and ability to hold to maturity are designated as held-to-maturity financial assets. They are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect amounts expected not to be recoverable. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the investment's carrying value and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses may be reversed through profit and loss in subsequent periods.

Marketable securities are securities held for trading which cannot be considered as cash and cash equivalents. They are designated as financial asset at fair value through profit or loss. Changes in fair value are reported as financial income or expense.

Derivative financial instruments

Derivative financial instruments are recognised and re-measured at fair value (see Note 2.3.9 for foreign currency hedging instruments and Note 2.3.19 for interest rate derivatives).

Receivables

Receivables are initially recognised at fair value, which in most cases approximates the nominal value. If there is any subsequent indication that those assets may be impaired, they are reviewed for impairment. Any difference between the carrying value and the impaired value (net realisable value) is recorded within income from operations. The impairment loss can be reversed if the value is recovered in the future. In that case, the reversal of the impairment loss is reported within income from operations.

2.3.14. Inventories

Raw materials and supplies, work in progress and finished products are stated at the lower of cost, using the weighted average cost method, or net realisable value. Inventory cost includes direct material and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.3.15. Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, which are subject to an insignificant risk of change in value.

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.3.16. Taxation

The group computes taxes in accordance with prevailing tax legislation in the countries where income is taxable.
The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Temporary differences arising between the carrying amount and the tax base of assets and liabilities, unused tax losses and unused tax credits are identified for each taxable entity (or each tax group when applicable). Corresponding deferred taxes are calculated at the enacted or substantively enacted tax rates that are expected to apply in the period when the asset is realised or the liability settled.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available in the future against which the deductible differences, unused tax losses and unused tax credits can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of certain taxable temporary differences between the Group's share in the net assets in subsidiaries, joint ventures and associates and their tax bases. The most common situation when such exception applies relates to undistributed profits of subsidiaries where distribution to the shareholders would trigger a tax liability: when the Group has determined that profits retained by the subsidiary will not be distributed in the foreseeable future, no deferred tax liability is recognised.

Deferred tax assets and liabilities are offset when both of the following conditions are met:

- the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

Deferred tax is charged or credited to net income, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is classified in other comprehensive income.

2.3.17. Provisions

As long as a construction contract or a long-term service agreement is in progress, obligations attributable to such a contract are taken into account in the assessment of the margin to be recognised and are therefore reported within the accounts "Construction contracts in progress, assets" or "Construction contracts in progress, liabilities".

Upon completion of the contract, such obligations are recognised as distinct liabilities when they satisfy the following criteria:

- the Group has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of economic resources will be required to settle the obligation; and
- such outflow can be reliably estimated.

These liabilities are presented as provisions when they are of uncertain timing or amount. When this uncertainty is dispelled, they are presented as trade payables or other current liabilities.

Obligations resulting from transactions other than construction contracts and long-term service agreements are directly recognised as provisions as soon as the above-mentioned criteria are met.
Where the effect of the time value of money is material, provisions are measured at their present value.

Restructuring provisions are made when plans to reduce or close facilities, or to reduce the workforce have been finalised and approved by the Group management and have been announced before the balance sheet date, resulting in an obligation of the Group to third parties. Restructuring costs include employees' severance and termination benefits and estimated facility closing costs. In addition to such provisions, restructuring costs may include asset write-off relating to the restructured activities.

2.3.18. Financial liabilities

Bonds and borrowings

Bonds and interest-bearing bank loans are initially recognised at fair value, less any transaction costs directly attributable to the issuance of the liability. These financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments

Derivative financial instruments are recognised and re-measured at fair value (see Note 2.3.9 for foreign currency hedging instruments and Note 2.3.19 for interest rate hedging instruments).

Payables

Payables are initially recognised at fair value, which in most cases approximates the nominal value. They are subsequently re-measured at amortised cost.

2.3.19. Interest rate derivatives

The Group may enter into hedges for the purpose of managing its exposure to movements in interest rates. Derivatives are recognised on the balance sheet at fair value at the closing date. Providing that the relationships between the interest rate exposure and the related derivatives are qualifying relationships, the Group uses the specific accounting treatments designated as hedge accounting. Fair value hedge accounting and cash flow hedge accounting are applied to fixed and floating rate borrowings, respectively.

In the case of fair value hedge relationships, the re-measurement of the fixed rate borrowing is offset in the income statement by the movement in the fair value of the derivative up to the effective part of hedged risk. In the case of cash flow hedge relationships, the change in fair value of the derivative is recognised directly in other comprehensive income. When the forecast transaction results in the recognition of a monetary item, the amounts previously recognised directly in other comprehensive income are reclassified to the income statement.

2.3.20. Share-based payments

The Group issues equity-settled and cash-settled share-based payments to certain employees.

Equity-settled share-based payments
Equity-settled share-based payments are measured at fair value at the grant date (excluding the effect of non-market-based conditions) using the binomial pricing model. The cumulative recognised expense is based on the fair value at grant date and on the estimated number of shares that will eventually vest (including the effect of non-market-based vesting conditions). It is recorded in income from operations throughout the vesting period with a counterpart in equity.
At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Cash-settled share-based payments
For cash-settled share-based payments, a liability equal to the portion of the goods or services rendered is recognised at the current fair value determined at each balance sheet date.

The Group may also provide employees with the ability to purchase the Group's ordinary shares at a discounted price compared to that of the current market value. In that case, the Group records an expense based on the discount given and its estimate of the shares expected to vest.

2.3.21. Post-employment and other long-term defined employee benefits

The Group provides its employees with various types of post-employment benefits, such as pensions, retirement bonuses and medical care, and other long-term benefits, such as jubilee awards and deferred compensation schemes. The type of benefits offered to individual employees is related to local legal requirements as well as practices of the specific subsidiaries.
The Group's health care plans are generally contributory with participants' contributions adjusted annually.

Post-employment defined benefit plans
For single employer defined benefit plans, the Group uses the Projected Unit Credit Method to determine the present value of its obligations and the related current and past service costs/profits. This method considers the actuarial assumptions' best estimates (for example, the expected turnover, the expected future salary increase and the expected mortality).

Most defined benefit pension liabilities are funded through pension funds legally distinct from the entities constituting the Group. Plan assets related to funded plans are invested mainly in equity and debt securities. Other supplemental pension plans sponsored by the Group for certain employees are directly paid by the employer as they become due. Post-employment medical benefit plans are predominantly unfunded.

The Group periodically reviews plan assets and obligations. The effects of any change in actuarial assumptions together with the differences between forecast and actual experience are assessed. The Group recognises in other comprehensive income the full amount of any actuarial gains and losses as well as the effect of any asset ceiling.

The estimated cost of providing defined benefits to employees is accrued during the years in which the employees render services. In the income statement, the service cost is included in the income from operations. The amortisation of unrecognised prior service cost/profit and specific events impacts (e.g. curtailments) are recognised in other expenses. Interest cost and expected return on assets are included in financial income (expenses).

The Group also participates in multi-employer defined benefit plans, mainly in the United States and Canada. As corresponding funds are not able to provide sufficient information to use defined benefit accounting, these plans are accounted for as defined contribution plans (see below).

Post-employment defined contribution plans

For defined contribution plans, the Group pays contributions to independently administered funds at a fixed percentage of employees' pay. These contributions are recorded as operating expenses.

Other long-term employee benefits

The accounting method used when recognising obligations arising from other long-term employee benefits is similar to the method used for post-employment defined benefits, except that prior service cost and actuarial gains/losses are immediately recognised in full in "other income/expenses" in the income statement.

2.3.22. Off balance sheet commitments

Commitments arising from execution of operations controlled by the Group

In the ordinary course of business, the Group is committed to fulfil various types of obligations arising from customer contracts (among which full performance and warranty obligations). Obligations may also arise from leases and regulations in respect of tax, custom duties, environment, health and safety. These obligations may or may not be guaranteed by bonds issued by banks or insurance companies.

As the Group is in a position to control the execution of these obligations, a liability only arises if an obligating event (such as a dispute or a late completion) has occurred and makes it likely that an outflow of resources will occur.

When the liability is considered as only possible but not probable or, when probable, cannot be reliably measured, it is disclosed as a contingent liability.

When the liability is considered as probable and can be reliably measured, the impact on the financial statements is the following:

- if the additional liability is directly related to the execution of a customer contract in progress, the estimated gross margin at completion of the contract is reassessed; the cumulated margin recognised to date based on the percentage of completion and the accrual for future contract loss, if any, are adjusted accordingly,
- if the additional liability is not directly related to a contract in progress, a liability is immediately recognised on the balance sheet.

The contractual obligations of subcontractors towards the Group are of the same nature as those of the Group towards its customers. They may be secured by the same type of guarantees as those provided to the Group's customers.
No contingent asset is disclosed when the likelihood of the obligation of the third party remains remote or possible. A contingent asset is disclosed only when the obligation becomes probable.

Any additional income resulting from a third party obligation is taken into account only when it becomes virtually certain.

Commitments arising from execution of operations not wholly within the control of the Group

Obligations towards third parties may arise from on-going legal proceedings, credit guarantees covering the financial obligations of third parties in cases where the Group is the vendor, and indemnification guarantees issued in connection with disposals of business entities.

In case of legal proceedings, a contingent liability is disclosed when the liability is considered as only possible but not probable, or, when probable, cannot be reliably measured. In case of commitments arising from guarantees issued, contingent liabilities are disclosed as soon as guarantees have been delivered and as long as they have not matured.

A provision is recorded if the obligation is considered as probable and can be reliably measured.

Contingent assets arising from legal proceedings or guarantees delivered by third parties are only disclosed when they become probable.

2.3.23. Earnings per share

Basic earnings per share are computed by dividing the period net profit (loss) before the financial cost (net of tax) of bonds reimbursable with shares, by the weighted average number of outstanding shares during the period increased by the weighted average number of shares to be issued on reimbursement of bonds reimbursable with shares (“ORA”).

Diluted earnings per share are computed by dividing the period net profit (loss) before the financial cost (net of tax) of bonds reimbursable with shares, by the weighted average number of outstanding shares during the period adjusted in order to take into consideration all dilutive instruments (ORA, stock options, free shares).

Note 3. Scope of consolidation

3.1. Transmission activities (Grid)

On 20 January 2010, Alstom and Schneider Electric, acting under a consortium agreement, signed an agreement with Areva with the purpose of acquiring its transmission and distribution activities ("Areva T&D"). Following the approvals from competition authorities, the closing of the acquisition took place on 7 June 2010 and the consortium acquired the entire capital of Areva T&D for an equity value of €2,290 million and both partners of the consortium took over from Areva the financial debt refinancing of this company.

Alstom funded the equity value of the Transmission activities (€1,570 million) and refinanced the related debt of €753 million.

The consortium agreement establishes that, at the closing date of the transaction, Transmission activities and Distribution activities are owned respectively by Alstom and Schneider Electric.
As a result, the Transmission activities have been fully consolidated since 7 June 2010 in the Group's financial statements, while the Distribution activities are totally excluded from the consolidation scope.

With this acquisition, the Group formed a new Sector, named Grid.

In accordance with IFRS 3 (revised), the Group has recognised the assets acquired and liabilities assumed, these being measured at fair value at the acquisition date.

The Group has decided to measure the non-controlling interests at the non-controlling interests' proportionate share of the identifiable net assets of the Transmission activities.

The valuation of assets acquired and liabilities assumed at their fair value has resulted in the recognition of new intangible assets (technology, order backlog margin and customer relationships) and the re-measurement of tangible assets, inventories and liabilities. Assets have been valued by external independent experts. The valuation was finalised on 7 June 2011 and its effects reflected in the Consolidated Financial Statements.

The resulting goodwill amounts to €1,529 million and is mainly supported by the leadership position of Alstom Group in growing markets and by expected synergies between Grid and other Alstom activities in terms of costs and portfolio strategy, in particular the unique positioning of

the acquired businesses on the Smart Grid key markets and the international presence of the Transmission businesses.

In the fields of cost reductions, comprehensive commercial offering and combined workforce and know-how, specific synergies with Power and Transport Sectors have been identified. An in-depth analysis and valuation of these synergies, carried out by an independent expert, has resulted in a final allocation of goodwill of €293 million to Power sectors and €136 million to Transport sector. Therefore the goodwill allocated to Grid amounts to €1,100 million.

Fair values of the assets acquired and liabilities assumed of the Transmission activities at the date of acquisition:

(in € million)	Fair values
Intangible assets	509
Property plant & equipment	629
Associates & other investments	1
Other non current assets, net	16
Deferred tax	189
Total non-current assets	**1,344**
Inventories	725
Construction contracts in progress, assets	0
Trade receivables	1,916
Other current operating assets	556
Marketable securities and other current financial assets	0
Cash and cash Equivalents	328
Total current assets	**3,525**
Total assets	**4,869**
Non-current provisions	204
Accrued pensions and other employee benefits	188
Non-current borrowings	8
Non-current obligations under finance leases	7
Deferred tax	19
Total non-current liabilities	**426**
Current provisions	523
Current borrowings	1,058
Current obligations under finance leases	1
Construction contract in progress, liabilities	742
Trade payables	766
Other current operating liabilities	1,237
Total current liabilities	**4,327**
Total Liabilities	**4,753**
Net assets acquired	**116**
Fair value of assets and liabilities attributable to non controlling interests	75
Fair value of assets and liabilities attributable to equity holders of the parent	**41**
Purchase price	1,570
Final goodwill	**1,529**

3.2. Transmashholding

On 27 May 2011, Alstom has finalised its partnership agreement with Transmashholding ("TMH"), the leading Russian rail manufacturer, by acquiring a 25% stake (plus one share) of the Breakers Investments B.V., which holds 100% of Transmashholding. The deal was closed after Alstom received all approvals of the appropriate Russian authorities.

Alstom share in the Breakers Investments B.V. group is an investment in associates and is therefore accounted for according to the equity method.

Pursuant to the closing of the deal, Alstom made an initial payment of $75 million (approximately €53 million) to the selling shareholders. The remainder of the price will be calculated using a computation method based on TMH operating results over a four-year period (2008-2011), and paid by the end of 2012. This unpaid portion of the price has been recorded as financial debt at the date the partnership agreement has been finalized, and reassessed based on the latest information available at 31 March 2012.

In accordance with IAS 28, the Group has recognised its share in the net fair values of the associate's identifiable assets acquired and liabilities assumed at the acquisition date. Accordingly, a preliminary valuation has been determined as at 27 May 2011. The fair value of assets acquired and liabilities assumed may be subsequently adjusted during a maximum of 12 months from the date the investment becomes an associate, depending on new information obtained about the facts and circumstances existing at the acquisition date.

The resulting and preliminary goodwill amounts to €47 million as at 31 March 2012 and is included in the carrying amount of the investment.

3.3. Joint company in Boilers

Alstom and Shanghai Electric signed in April 2011 a letter of intent to create Alstom-Shanghai Electric Boilers Co, a 50/50 joint company that would be world leader in boilers for coal-fired power plants, with combined sales of about €2.5 billion. The joint company will benefit from Shanghai Electric's strong competitiveness and positioning in China as well as from Alstom's close relationship with the utilities worldwide and its related technologies.

Note 4. Segment information

4.1 Key indicators by operating segment

At 31 March 2012

(in € million)	Thermal Power	Renewable Power	Transport	Grid	Corporate & others	Elimina-tions	Total
Sales	8771	2039	5171	4060	0	-107	19934
Inter Sector eliminations	-45	-12	-3	-47	0	107	0
Total Sales	**8726**	**2027**	**5168**	**4013**	**0**	**0**	**19934**
Income (loss) from operations	850	150	264	248	-106	0	1406
Earnings (loss) before interest and taxes	**824**	**149**	**222**	**83**	**-206**	**0**	**1072**
Financial income (expense)							-177
Income tax							-179
Share in net income of equity investments							28
Net profit							**744**
Segment assets (1)	**11570**	**2674**	**5778**	**5197**	**1814**	**0**	**27033**
Deferred taxes (assets)							1472
Prepaid employee defined benefit costs							12
Financial assets							2530
Total assets							**31047**
Segment liabilities (2)	**9500**	**1630**	**4375**	**3058**	**1435**	**0**	**19998**
Deferred taxes (liabilities)							176
Accrued employee defined benefit costs							1417
Financial debt							5022
Total equity							4434
Total equity and liabilities							**31047**
Capital employed (3)	**2070**	**1044**	**1403**	**2139**	**379**	**0**	**7035**
Capital expenditure	**-264**	**-179**	**-188**	**-140**	**-42**	**0**	**-813**
Depreciation and amortisation in EBIT	**223**	**45**	**138**	**209**	**41**	**0**	**656**

(1) Segment assets are defined as the sum of goodwill, intangible assets, property, plant and equipment, associates and other investments, other non current assets (other than those related to financial debt and to employee defined benefit plans), inventories, construction contracts in progress assets, trade receivables and other operating assets.

(2) Segment liabilities are defined as the sum of non-current and current provisions, construction contracts in progress liabilities, trade payables and other operating liabilities.

(3) Capital employed corresponds to segment assets *minus* segment liabilities.

At 31 March 2011

(in € million)	Thermal Power	Renewable Power	Transport	Grid	Corporate & others	Elimina-tions	Total
Sales	9770	1949	5606	3653	0	-55	20923
Inter Sector eliminations	-45	-8	-2	0	0	55	0
Total Sales	**9725**	**1941**	**5604**	**3653**	**0**	**0**	**20923**
Income (loss) from operations	879	173	398	218	-98	0	1570
Earnings (loss) before interest and taxes	**558**	**132**	**225**	**35**	**-186**	**0**	**764**
Financial income (expense)							-136
Income tax							-141
Share in net income of equity investments							3
Net profit							**490**
Segment assets (1)	**11451**	**2191**	**4477**	**5891**	**1128**	**0**	**25138**
Deferred taxes (assets)							1287
Prepaid employee defined benefit costs							28
Financial assets							3180
Total assets							**29633**
Segment liabilities (2)	**9184**	**1387**	**4134**	**3809**	**1268**	**0**	**19782**
Deferred taxes (liabilities)							88
Accrued employee defined benefit costs							1145
Financial debt							4466
Total equity							4152
Total equity and liabilities							**29633**
Capital employed (3)	**2267**	**804**	**343**	**2082**	**-140**	**0**	**5356**
Capital expenditure	**-335**	**-76**	**-206**	**-126**	**-48**	**0**	**-791**
Depreciation and amortisation in EBIT	**228**	**34**	**148**	**229**	**37**	**0**	**676**

(1) Segment assets are defined as the sum of goodwill, intangible assets, property, plant and equipment, associates and other investments, other non current assets (other than those related to financial debt and to employee defined benefit plans), inventories, construction contracts in progress assets, trade receivables and other operating assets.

(2) Segment liabilities are defined as the sum of non-current and current provisions, construction contracts in progress liabilities, trade payables and other operating liabilities.

(3) Capital employed corresponds to segment assets *minus* segment liabilities.

4.2 Key indicators by geographic area

Sales by country of destination

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Western Europe	7,077	7,899
thereof France	*2,136*	*2,155*
Eastern Europe	1,352	1,454
North America	2,440	2,571
thereof USA	*1,630*	*1,753*
South & Central America	1,752	1,731
Asia & Pacific	4,316	3,788
Middle East & Africa	2,997	3,480
Total Group	**19,934**	**20,923**

Non-current assets by country of location

(in € million)	At 31 March 2012	At 31 March 2011
Western Europe (1)	8,704	8,278
thereof France (2)	*2,832*	*2,495*
Eastern Europe	310	295
North America	771	740
thereof USA	*670*	*640*
South & Central America	188	142
Asia & Pacific	885	804
Middle East & Africa	36	39
Total Group	**10,894**	**10,298**

(1) This amount mainly includes goodwill of Power Sectors.

(2) This amount includes goodwill of Grid Sector.

4.3 Information about major customers

No external customer represents individually 10% or more of the Group's consolidated sales.

Note 5. Research and development expenditure

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Research and development expenses	**(682)**	**(703)**
Developments costs capitalised during the period (see Note 10.2)	(293)	(286)
Amortisation expense of capitalised development costs (see Note 10.2)	113	98
Amortisation of acquired technology (see Note 10.2)	82	67
Total research and development expenditure	**(780)**	**(824)**

During the fiscal year ended 31 March 2012, the Group invested €780 million in research and development to develop new technologies and to extend its existing product offering.

These research and development programmes relate mainly to:

- the development of Alstom's range of gas turbines, including performance upgrade packages and combustion system improvements to reduce emissions and increase fuel flexibility,
- the development of offshore wind turbine with a robust, simple and efficient design which will allow to improve the competitiveness of offshore wind power,
- the improvement of the Transport sector's technological edge of the product offering (first third generation duplex TGV train set, first Coradia Polyvalent™ trainset, high speed Pendolino™, etc),
- the accelerated industrialisation of the Voltage Source Converter in the High Voltage Direct Current range and the Smart Grid developments.

Note 6. Other income and other expenses

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Capital gains on disposal of businesses	-	-
Other	3	46
Other income	**3**	**46**
Capital losses on disposal of businesses	(2)	(33)
Restructuring costs	(83)	(520)
Expenses exclusively incurred in the context of business combinations	(156)	(203)
Other	(96)	(96)
Other expense	**(337)**	**(852)**
Other income (expenses)	**(334)**	**(806)**

Capital losses mainly arose from adjustments on disposed activities.

The largest part of the amount of restructuring costs recorded for the year ended 31 March 2011 are accounted by Power and Transport sectors following their plans respectively announced in October 2010 and March 2011. In the last six months of the financial year ended 31 March 2011, the Group has started to adapt its footprint in order to address the lower demand in developed countries (Europe and USA) and the fast growth of its markets in emerging countries.

Expenses exclusively incurred in the context of business combinations comprise the amortisation of acquired margin related to Grid's acquisition and the costs incurred to effect the acquisition of Grid.

Other income and other expenses mainly derive from components of the post-employment and other long term defined benefit expense, costs of legal proceedings that have arisen outside the ordinary course of business and non-recurring impairment losses on assets.

Note 7. Financial income (expense)

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Interest income	37	49
Other financial income	18	8
Financial income	**55**	**57**
Interest expense	(179)	(135)
Net financial expense from employee defined benefit plans	(4)	(16)
Net exchange loss	(11)	(7)
Other financial expenses	(38)	(35)
Financial expense	**(232)**	**(193)**
Financial income (expense)	**(177)**	**(136)**
Out of which		
Financial income/(expense) arising from Financial instruments (see Note 25)	(173)	(120)

Interest income of €37 million represents the remuneration of the Group's cash positions over the period.

Interest expense of €(179) million represents the cost of the gross financial debt. The increase compared to last year is due to the issuance of new bonds mainly related to the acquisition of the Grid business (see Note 24).

Other financial expense of €(38) million incorporates fees and commitment fees paid on guaranteed facilities, syndicated loans and other financing facilities for €(15) million (€(25) million for the year ended 31 March 2011).

Note 8. Taxation

8.1 Analysis of income tax charge

The following table summarises the components of income tax charge for the years ended 31 March 2012 and 2011:

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Current income tax charge	(273)	(248)
Deferred income tax charge	94	107
Income tax charge	**(179)**	**(141)**
Effective tax rate	20%	22%

The favourable geographical mix of income before taxes has enabled the Group to decrease the effective tax rate to 20% for the period ended 31 March 2012 compared to 22% for the previous fiscal year. Note that, although the rate has been stable over the last years, it may change from one year to another notably based on the following events:

- the geographical mix of income before taxes,
- the Group's ability to recognise new deferred tax assets and to use its tax loss carry forwards and,
- the outcome of income tax audits.

8.2 Effective income tax rate

The following table provides a reconciliation from the income tax charge valued at the French statutory rate to the actual income tax charge for the years ended 31 March 2012 and 2011:

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Pre-tax income	**895**	**628**
Statutory income tax rate of the parent company	34.43%	34.43%
Expected tax charge	**(308)**	**(216)**
Impact of:		
- Difference between normal tax rate applicable in France and normal tax rate in force in jurisdictions outside France	105	41
- Transactions liable for reduced tax rate	11	104
- Changes in unrecognised deferred tax assets	(69)	(52)
- Changes in tax rates	(7)	10
- Additional tax expenses (withholding tax, CVAE in France and IRAP in Italy)	(73)	(47)
- Permanent differences and other (*)	162	19
Income tax charge	**(179)**	**(141)**
Effective tax rate	20%	22%

8.3 Deferred tax assets and liabilities

(in € million)	At 31 March 2012	At 31 March 2011
Deferred tax assets	1,472	1,287
Deferred tax liabilities	(176)	(88)
Deferred tax assets, net	**1,296**	**1,199**

8.4 Changes in net deferred tax assets

Net deferred tax assets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table summarises the significant components of the Group's net deferred tax assets as of 31 March 2012 and 2011:

(in € million)	At 31 March 2011	Change in P&L	Change in equity (*)	Acquisitions through business combinations	Translation adjustments and other changes	At 31 March 2012
Differences between carrying amount and tax basis of tangible and intangible assets	(13)	(13)	-	-	5	(21)
Accruals for employee benefit costs not yet deductible	213	(15)	31	1	12	242
Provisions and other accruals not yet deductible	500	(1)	-	-	1	500
Differences in recognition of margin on construction contracts	(299)	11	-	-	9	(279)
Tax loss carry forwards	911	177	-	(5)	(48)	1,035
Other	(113)	(65)	4	15	(22)	(181)
Net deferred tax assets/(liabilities)	**1,199**	**94**	**35**	**11**	**(43)**	**1,296**

(*) Mainly related to actuarial gains and losses directly recognised in equity (see consolidated statement of comprehensive income).

The Group is satisfied as to the recoverability of its recognised deferred tax assets at 31 March 2012 (€1,296 million) on the basis of an extrapolation of the last three-year business plan, as approved by the Board of Directors and the strategy for the long-term recovery of tax losses in each country.

Deferred tax assets still unrecognised amount to €1,225 million at 31 March 2012 (€865 million at 31 March 2011). Most of these unrecognised deferred taxes are originated from tax loss carry forward (€827 million at 31March 2012 and €645 million at 31 March 2011), out of which €500 million are not subject to expiry at 31 March 2012 (€452 million at 31 March 2011).

Note 9. Earnings per share

9.1 Earnings

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Net profit attributable to equity holders of the parent	732	462
Earnings attributable to equity holders of the parent used to calculate basic and diluted earnings per share	**732**	**462**

9.2 Number of shares

	Year ended 31 March 2012	Year ended 31 March 2011
Weighted average number of ordinary shares used to calculate basic earnings per share	**294,522,251**	**294,210,753**
Effect of dilutive instruments other than bonds reimbursables with shares:		
- Stock options and free shares (1)	2,962,692	2,537,172
- Free shares	225,727	230,089
Weighted average number of ordinary shares used to calculate diluted earnings per share	**297,710,670**	**296,978,014**

(1) Stock options taken into consideration in the calculation of the diluted earnings per share only relate to plans 7, 8 and 14, plans 9, 10, 12 and 13 being out of the money as at 31 March 2012.

9.3 Earnings per share

(in €)	Year ended 31 March 2012	Year ended 31 March 2011
- Basic earnings per share	2.49	1.57
- Diluted earnings per share	2.46	1.56

Note 10. Goodwill and intangible assets

Goodwill and intangible assets are reviewed for impairment at least annually and whenever events or circumstances indicate that they might be impaired. Such events or circumstances are related to significant, unfavourable changes that are of a lasting nature and affect either the economic environment or the assumptions or the targets adopted as of the acquisition date. An impairment loss is recognised when the recoverable value of the assets tested becomes durably lower than their carrying value.

10.1 Goodwill

(in € million)	At 31 March 2011	Acquisitions and adjustments on preliminary goodwill	Disposals	Translation adjustments and other changes	At 31 March 2012
Thermal Power	3,180	-	-	28	3,208
Renewable Power	488	-	-	1	489
Transport	568	90	-	3	661
Grid	1,160	(37)	-	2	1,125
Goodwill	**5,396**	**53**	**-**	**34**	**5,483**
of which:					
Gross value	5,396	53	-	34	5,483
Impairment	-	-	-	-	-

(in € million)	At 31 March 2010	Acquisitions and adjustments on preliminary goodwill	Disposals	Translation adjustments and other changes	At 31 March 2011
Thermal Power	2,960	224	-	(4)	3,180
Renewable Power	421	67	-	-	488
Transport	523	46	-	(1)	568
Grid	-	1,162	-	(2)	1,160
Goodwill	**3,904**	**1,499**	**-**	**(7)**	**5,396**
of which:					
Gross value	3,904	1,499	-	(7)	5,396
Impairment	-	-	-	-	-

The movement over the period ended 31 March 2012 mainly arises from the final allocation of the purchase price related to the acquisition of the Grid activity (see Note 3).

As described in Note 3, part of the goodwill arising from the acquisition of the Grid activity has been allocated to the other Sectors. Goodwill allocated to the former Power Sector has been broken down between Thermal Power and Renewable Power based on their respective fair values.

As related information was available, the allocation to Thermal Power and Renewable Power Sectors of the goodwill of the former Power Sector has been made based on historical basis.

The carrying values of Thermal Power and Renewable Power goodwill retrospectively determined at 31 March 2011 after consideration of the reorganisation of the former Power Sector remain lower than their recoverable values at that date.

The impairment test at 31 March 2012 supports the Group's opinion that goodwill is not impaired.

The main assumptions used to assess the recoverable amounts of goodwill are as follows:

	Thermal Power	Renewable Power	Transport	Grid
Net carrying amount of goodwill at 31 March 2012 (in € million)	3,208	489	661	1,125
Value elected as representative of the recoverable value	value in use	value in use	value in use	value in use
Number of years over which cash flow estimates are available	3 years	3 years	3 years	3 years
Extrapolation period of cash flow estimates	2 years	2 years	2 years	2 years
Long term growth rate at 31 March 2012	**2.0%**	**2.0%**	**1.5%**	**2.0%**
Long term growth rate at 31 March 2011	2.0%	2.0%	1.5%	2.0%
After tax discount rate at 31 March 2012 (*)	**9.0%**	**9.0%**	**9.0%**	**9.0%**
After tax discount rate at 31 March 2011 (*)	9.0%	9.0%	9.0%	9.00%

(*) The application of pre-tax discount rates to pre-tax cash flows leads to the same valuation of cash generating units.

As of 31 March 2012, the recoverable amounts of the 4 Sectors significantly exceeded their carrying value.

For all the Sectors, no impairment of the goodwill would need to be recognized when the value in use is calculated by using either:

• a discount rate that ranges from 240 to 2400 basis points above the base rate of 9%, depending on the Sector;

• a nil long-term growth rate.

Sensitivity of enterprise values to key assumptions can be presented as follows:

(in € million)	Thermal Power		Renewable Power		Transport		Grid	
	-100 bp	*+100 bp*	*-100 bp*	*+100 bp*	*-100 bp*	*+100 bp*	*-100 bp*	*+100 bp*
After tax discount rate	1743	-1306	324	-243	463	-354	511	-383
	-50 bp	*+50 bp*	*-50 bp*	*+50 bp*	*-50 bp*	*+50 bp*	*-50 bp*	*+50 bp*
Long-term growth rate	(556)	642	(103)	119	(173)	198	(189)	217

10.2 Intangible assets

(in € million)	At 31 March 2011	Additions / disposals / amortisation	Acquisitions through business combinations	Translation adjustments and other changes	At 31 March 2012
Development costs	1,395	293	-	(2)	1,686
Acquired technology	1,422	-	-	-	1,422
Other intangible assets	678	6	(3)	16	697
Gross value	**3,495**	**299**	**(3)**	**14**	**3,805**
Development costs	(549)	(113)	-	5	(657)
Acquired technology	(668)	(82)	-	2	(748)
Other intangible assets	(344)	(124)	-	(11)	(479)
Amortisation and impairment	**(1,561)**	**(319)**	**-**	**(4)**	**(1,884)**
Development costs	846	180	-	3	1,029
Acquired technology	754	(82)	-	2	674
Other intangible assets	334	(118)	(3)	5	218
Net value	**1,934**	**(20)**	**(3)**	**10**	**1,921**

(in € million)	At 31 March 2010	Additions / disposals / amortisation	Acquisitions through business combinations	Translation adjustments and other changes	At 31 March 2011
Development costs	1,112	286	2	(5)	1,395
Acquired technology	1,245	1	172	4	1,422
Other intangible assets	277	35	338	28	678
Gross value	**2,634**	**322**	**512**	**27**	**3,495**
Development costs	(452)	(98)	-	1	(549)
Acquired technology	(575)	(93)	-	-	(668)
Other intangible assets	(154)	(159)	-	(31)	(344)
Amortisation and impairment	**(1,181)**	**(350)**	**-**	**(30)**	**(1,561)**
Development costs	660	188	2	(4)	846
Acquired technology	670	(92)	172	4	754
Other intangible assets	123	(124)	338	(3)	334
Net value	**1,453**	**(28)**	**512**	**(3)**	**1,934**

Technology and licence agreements acquired through the combination with ABB ALSTOM POWER in 1999 and 2000 and through the combination with Transmission activities in 2010 represent the bulk of the gross amount reported as acquired technology.

The impairment test at 31 March 2012 supports the Group's opinion that intangible assets are not impaired.

Note 11. Property, plant and equipment

(in € million)	At 31 March 2011	Acquisitions / Depreciation/ Impairments	Disposals	Acquisitions through business combinations	Translation adjustments and other changes	At 31 March 2012
Land	197	6	(5)	-	(3)	195
Buildings	1,612	72	(6)	(5)	87	1,760
Machinery and equipment	2,716	145	(103)	-	84	2,842
Constructions in progress	262	209	(1)	-	(136)	334
Tools, furniture, fixtures and other	538	53	(42)	-	35	584
Gross value	**5,325**	**485**	**(157)**	**(5)**	**67**	**5,715**
Land	(9)	-	-	-	-	(9)
Buildings	(603)	(68)	10	-	(12)	(673)
Machinery and equipment	(1,715)	(185)	96	-	6	(1,798)
Constructions in progress	-	-	-	-	-	-
Tools, furniture, fixtures and other	(347)	(54)	38	-	(20)	(383)
Amortisation and impairment	**(2,674)**	**(307)**	**144**	**-**	**(26)**	**(2,863)**
Land	188	6	(5)	-	(3)	186
Buildings	1,009	4	4	(5)	75	1,087
Machinery and equipment	1,001	(40)	(7)	-	90	1,044
Constructions in progress	262	209	(1)	-	(136)	334
Tools, furniture, fixtures and other	191	(1)	(4)	-	15	201
Net value	**2,651**	**178**	**(13)**	**(5)**	**41**	**2,852**

(in € million)	At 31 March 2010	Acquisitions / Depreciation/ Impairments	Disposals	Acquisitions through business combinations	Translation adjustments and other changes	At 31 March 2011
Land	126	11	(7)	64	3	197
Buildings	1,263	83	(84)	223	127	1,612
Machinery and equipment	2,325	151	(95)	239	96	2,716
Constructions in progress	340	164	(7)	68	(303)	262
Tools, furniture, fixtures and other	469	68	(49)	40	10	538
Gross value	**4,523**	**477**	**(242)**	**634**	**(67)**	**5,325**
Land	(5)	(2)	-	-	(2)	(9)
Buildings	(579)	(77)	65	-	(12)	(603)
Machinery and equipment	(1,641)	(183)	83	-	26	(1,715)
Constructions in progress	-	-	-	-	-	-
Tools, furniture, fixtures and other	(340)	(62)	44	-	11	(347)
Amortisation and impairment	**(2,565)**	**(324)**	**192**	**-**	**23**	**(2,674)**
Land	121	9	(7)	64	1	188
Buildings	684	6	(19)	223	115	1,009
Machinery and equipment	684	(32)	(12)	239	122	1,001
Constructions in progress	340	164	(7)	68	(303)	262
Tools, furniture, fixtures and other	129	6	(5)	40	21	191
Net value	**1,958**	**153**	**(50)**	**634**	**(44)**	**2,651**

The net value of tangible assets held under finance leases and included in the above data is as follows:

(in € million)	At 31 March 2012	At 31 March 2011
Land	13	13
Buildings	70	77
Machinery and equipment	3	7
Tools, furniture, fixtures and other	15	15
Net value of tangible assets held under finance leases	**101**	**112**

Commitments to purchase fixed assets amount to €64 million at 31 March 2012. They notably arise from the construction of a new facility in India for the manufacturing of turbines.

Note 12. Associates and non consolidated investments

12.1 Associates

Financial information on associates

(in € million)	At 31 March 2012	At 31 March 2011	At 31 March 2012 % ownership
The Breakers Investments B.V. (Transmashholding)	307	-	25.0%
Shanghai Lingang Transformers	17	-	50.0%
Shanghai Alstom Transportation Company (SATCO)	12	10	40.0%
Cerrey - Babcock & Wilcox de Mexico	19	17	25.0%
Alstom Atomenergomash	13	12	49.0%
Other	9	4	-
Total Associates	**377**	**43**	

(in € million)	Closing date	Total assets at closing date	Total liabilities at closing date	Total revenues	Total net profit (loss)
The Breakers Investments B.V. (Transmashholding)(*)	31 December	2,074	1,088	1,920	146
Shanghai Lingang Transformers	31 December	32	6	2	(10)
Shanghai Alstom Transportation Company (SATCO)	31 December	83	53	51	2
Cerrey - Babcock & Wilcox de Mexico	31 December	177	99	157	10
Alstom Atomenergomash	31 March	248	162	1	(1)

(*) Financial statements of year end closing 31 December 2011 are not yet available. Financial statements of year end closing 31 December 2010 are mentionned here.

Movements during the period

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Opening balance	**43**	**43**
Share in net income/(loss) of equity investments	28	3
Dividends paid	(1)	(3)
Acquisitions	276	-
Translation adjustments and other	31	-
Closing balance	**377**	**43**

12.2 Non-consolidated investments

Financial information on non-consolidated investments

(in € million)	At 31 March 2012			At 31 March 2011	At 31 March 2012
	Gross	Impairment	Net	Net	% ownership
Bright Source Energy	97	-	97	110	17.80%
Shanghai Lingang Transformers (1)	-	-	-	26	50.00%
Other (2)	62	(5)	57	28	0
Total	**159**	**(5)**	**154**	**164**	

(1) This entity was acquired during the financial year 2010-2011 and has been accounted under the equity method since 1 April 2011.

(2) No other investments net value exceeds €10 million.

Movements during the period

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Opening balance	**164**	**23**
Change in fair value (*)	(13)	12
Acquisitions	16	131
Translation adjustments and other	(13)	(2)
Closing balance	**154**	**164**

(*) variation recorded in other comprehensive income as fair value gains / (losses) on assets available for sale

Note 13. Other non-current assets

(in € million)	At 31 March 2012	At 31 March 2011
Financial non-current assets associated to financial debt (*)	426	429
Long-term loans, deposits and other	119	138
Other non-current assets	**545**	**567**

(*) These non-current assets relate to a long-term rental of trains and associated equipment to a London metro operator (see Notes 24 and 29). They are made up as follows:

- at 31 March 2012, €400 million receivables and €26 million deposit;
- at 31 March 2011, €405 million receivables and €24 million deposit.

Note 14. Inventories

(in € million)	At 31 March 2012	At 31 March 2011
Raw materials and supplies	910	944
Work in progress	2,207	2,461
Finished products	374	377
Inventories, gross	**3,491**	**3,782**
Raw materials and supplies	(154)	(166)
Work in progress	(144)	(168)
Finished products	(55)	(85)
Write-down	**(353)**	**(419)**
Inventories, net	**3,138**	**3,363**

Changes in inventory write-down recognised as income for the year ended 31 March 2012 amount to €47 million (€26 million expense for the year ended 31 March 2011).

Note 15. Construction contracts in progress

(in € million)	At 31 March 2012	At 31 March 2011	Variation
Construction contracts in progress, assets	3,752	2,479	1,273
Construction contracts in progress, liabilities	(9,508)	(9,166)	(342)
Construction contracts in progress	**(5,756)**	**(6,687)**	**931**

(in € million)	At 31 March 2012	At 31 March 2011	Variation
Contract costs incurred *plus* recognised profits *less* recognised losses to date	55,138	48,228	6,910
Less progress billings	(57,463)	(50,839)	(6,624)
Construction contracts in progress excluding down payments received from customers	**(2,325)**	**(2,611)**	**286**
Down payments received from customers	(3,431)	(4,076)	645
Construction contracts in progress	**(5,756)**	**(6,687)**	**931**

The evolution of down payments received from customers is primarily related to the classification of some customers payments received in Grid sector into progress payments. This reclassification is the consequence of implementation of Construction contracts in progress presentation in this sector during the period. Trade receivables, which decrease during the year ended 31 March 2012 (see Note 16), are also impacted by this reclassification.

Note 16. Trade receivables

			Past due on the closing date		
(in € million)	Total	No past due on the closing date	Less than 60 days	Between 60 and 180 days	More than 180 days
Trade receivables at 31 March 2012	**5,692**	**4,705**	**335**	**200**	**452**
o/w gross	5,806	4,732	337	203	534
o/w impairment	(114)	(27)	(2)	(3)	(82)
Trade receivables at 31 March 2011	**6,053**	**5,037**	**312**	**258**	**446**
o/w gross	6,170	5,101	313	259	497
o/w impairment	(117)	(64)	(1)	(1)	(51)

Impairment losses are determined considering the risk of non-recovery assessed on a case by case basis. Due to the type of business operated by the Group, past due receivables are frequently representative of outstanding amounts confirmed by customers but whose payment is subject to clearance of items raised during inspection of works. Such receivables do remain fully recoverable; costs to be incurred for the clearance of pending items are included in the determination of the margin at completion of the related contracts.

Note 17. Other current operating assets

(in € million)	At 31 March 2012	At 31 March 2011
Down payments made to suppliers	515	560
Corporate income tax	192	51
Other taxes	1,046	709
Prepaid expenses	431	329
Other receivables	443	418
Derivatives relating to operating activities	283	365
Remeasurement of hedged firm commitments in foreign currency	647	513
Other current operating assets	**3,557**	**2,945**

Note 18. Marketable securities and other current financial assets

(in € million)	At 31 March 2012	At 31 March 2011
Derivatives related to financing activities	10	33
Marketable securities	3	17
Marketable securities and other current financial assets	**13**	**50**

Note 19. Working capital

19.1 Balance sheet positions

(in € million)	At 31 March 2012	At 31 March 2011	Variation
Inventories	3,138	3,363	(225)
Construction contracts in progress, assets	3,752	2,479	1,273
Trade receivables	5,692	6,053	(361)
Other current operating assets	3,557	2,945	612
Assets	**16,139**	**14,840**	**1,299**
Non-current provisions	804	1,095	(291)
Current provisions	1,414	1,387	27
Construction contracts in progress, liabilities	9,508	9,166	342
Trade payables	4,080	4,071	9
Other current operating liabilities	4,192	4,063	129
Liabilities	**19,998**	**19,782**	**216**
Working capital	**(3,859)**	**(4,942)**	**1,083**

19.2 Analysis of variation in working capital

(in € million)	Year ended 31 March 2012
Working capital at the beginning of the period	**(4,942)**
Changes in working capital resulting from operating activities (1)	968
Changes in working capital resulting from investing activities (2)	76
Translation adjustments and other changes	39
Total changes in working capital	**1,083**
Working capital at the end of the period	**(3,859)**

(1) Item presented within "net cash provided by/(used in) operating activities" in the consolidated statement of cash flows
(2) Item presented within "net cash provided by/(used in) investing activities" in the consolidated statement of cash flows

Note 20. Equity

When managing capital, the objective of the Group is to safeguard its ability to continue as a going concern so that it can provide returns to shareholders, bring benefits to its other partners and optimise the structure of the capital in order to reduce its cost. To achieve this, the Group may choose to:

- adjust the amount of dividends paid to the shareholders;
- reimburse a portion of capital to the shareholders;
- issue new shares; or,
- sell assets in order to scale back its net debt.

20.1. Movements in share capital

Movements in financial year ended 31 March 2012

At 31 March 2012, the share capital of Alstom amounted to € 2,061,735,760 consisting of 294,533,680 ordinary shares with a par value of €7 each. For the year ended 31 March 2012, the weighted average number of outstanding ordinary shares amounted to 294,522,251 after the dilutive effect of bonds reimbursable in shares "Obligations Remboursables en Actions" and to 297,710,670 after the effect of all dilutive instruments.

During the year ended 31 March 2012, 288 bonds reimbursable in shares "Obligations Remboursables en Actions" were converted into 18 shares at a par value of €7. The 81,394 bonds reimbursable with shares outstanding at 31 March 2012 represent 5,112 shares to be issued.

Movements in financial year ended 31 March 2011

At 31 March 2011, the share capital of Alstom amounted to € 2,060,935,128 consisting of 294,419,304 ordinary shares with a par value of €7 each. For the year ended 31 March 2011, the weighted average number of outstanding ordinary shares amounted to 294,210,753 after the dilutive effect of bonds reimbursable in shares "Obligations Remboursables en Actions" and to 296,978,014 after the effect of all dilutive instruments.

During the year ended 31 March 2011, 4,380 bonds reimbursable in shares "Obligations Remboursables en Actions" were converted into 275 shares at a par value of €7. The 81,682 bonds reimbursable with shares outstanding at 31 March 2011 represent 5,130 shares to be issued.

20.2. Distribution of dividends

In respect of the financial year ended 31 March 2012, it will be proposed to the Shareholders' meeting called on 26 June 2012 to distribute dividends for a total amount of €236 million corresponding to a €0.80 dividend per share.

The following dividends were distributed in respect of the previous three financial years:

- year ended 31 March 2011 (decision of Shareholders' meeting held on 28 June 2011): total amount of €183 million, corresponding to a €0.62 dividend per share;
- year ended 31 March 2010 (decision of Shareholders' meeting held on 22 June 2010): total amount of €364 million, corresponding to a €1.24 dividend per share;
- year ended 31 March 2009 (decision of Shareholders' meeting held on 23 June 2009): total amount of €323 million, corresponding to a €1.12 dividend per share.

Note 21. Share-based payments

21.1. Stock options and free shares

Key characteristics

	Plans issued by shareholders meeting on 9 July 2004			Plans issued by shareholders meeting on 26 June 2007					
	Plan n°7	Plan n°8	Plan n°9	Plan n°10	Plan n°10	Plan n°11	Plan n°11	Plan n°12	Plan n°12
	stock options	stock options	stock options	stock options	free shares	stock options	free shares	stock options	free shares
Grant date	17/09/2004	27/09/2005	28/09/2006	25/09/2007	25/09/2007	23/09/2008	23/09/2008	21/09/2009	21/09/2009
Exercise period	17/09/2007 16/09/2014	27/09/2008 26/09/2015	28/09/2009 27/09/2016	25/09/2010 24/09/2017	n/a	23/09/2011 22/09/2018	n/a	21/09/2012 20/09/2017	n/a
Number of beneficiaries	1,007	1,030	1,053	1,196	1,289	411	1,431	436	1,360
Adjusted number granted [1]	5,566,000	2,803,000	3,367,500	1,697,200	252,000	754,300	445,655	871,350	522,220
Adjusted number exercised since the origin	4,488,319	1,641,557	526,967	1,000	220,320	-	-	-	1,280
Adjusted number cancelled since the origin	421,200	270,500	366,250	196,900	31,680	754,300	445,655	54,700	49,520
Ajusted number outstanding at 31 March 2012	656,481	890,943	2,474,283	1,499,300	-	-	-	816,650	471,420
inc. to the present members of the Executive Committee	9,572	8,000	325,000	171,100	-	-	-	125,250	6,560
Adjusted exercise price [2] (in €)	8.60	17.88	37.33	67.50	n/a	66.47	n/a	49.98	n/a
Fair value at grant date (in €)	7.30	10.30	12.90	29.24	129.20	16.71	63.54	11.26	48.11

(1) The number of options and free shares and the exercise price of options have been adjusted as a result of transactions that have impacted the number of capital shares after grant dates.
(2) The exercise price corresponds to the average opening price of the shares during the twenty trading days preceding the day on wich the options were granted by the Board (no discount or surcharge)

	Plans issued by shareholders meeting on 22 June 2010			
	Plan n°13	Plan n°13	Plan n°14	Plan n°14
	stock options	free shares	stock options	free shares
Grant date	13/12/2010	13/12/2010	04/10/2011	04/10/2011
Exercise period	13/12/2013 12/12/2018	n/a	04/10/2014 03/10/2019	n/a
Number of beneficiaries	528	1,716	514	1,832
Adjusted number granted [1]	1,235,120	740,860	1,369,180	804,040
Adjusted number exercised since the origin	-	1,930	-	460
Adjusted number cancelled since the origin	109,130	55,620	104,990	37,380
Ajusted number outstanding at 31 March 2012	1,125,990	683,310	1,264,190	766,200
inc. to the present members of the Executive Committee	134,150	11,490	375,000	43,000
Adjusted exercise price [2] (in €)	33.14	n/a	26.39	n/a
Fair value at grant date (in €)	7.59	31.35	3.14	19.77

(1) The number of options and free shares and the exercise price of options have been adjusted as a result of transactions that have impacted the number of capital shares after grant dates.
(2) The exercise price corresponds to the average opening price of the shares during the twenty trading days preceding the day on wich the options were granted by the Board (no discount or surcharge)

At 31 March 2012, stock options granted by plans 7, 8, 9 10 and 11 are fully vested. These options will expire seven years after the end of the vesting period of each plan.

The number of stock options and free shares granted on 21 September 2009 under the long term incentive plan 12 was conditional upon the Group satisfying specified levels of operating margin for the financial year 2011/2012.
The 2011/2012 Group's operating margin is below 7.2% and above 6.6%; as a consequence 40% of options will be exercisable under this plan and 40% of free share will be delivered.

The long term incentive plans set up since 2007 (plan 13 and plan 14) also combine the allocation of stock options with the allocation of free shares.
The grant of these instruments is conditional upon the group satisfying the following performance conditions:

LTI plan 13 granted on 13 December 2010:
The total number of options exercisable and free shares to be delivered will depend on the Group's operating margin for the financial years 2010/2011, 2011/2012 and 2012/2013:

	% of options exercisable & free shares to be delivered		
	Year ended 31 March 2011	**Year ended 31 March 2012**	**Year ended 31 March 2013**
Operating margin achieved above or equal to 7.5%	40%	40%	20%
Operating margin achieved between 7% (inclusive) and 7.5% (non inclusive)	30%	30%	10%
Operating margin achieved between 6.5% (inclusive) and 7% (non inclusive)	10%	10%	0%
Operating margin achieved below 6.5%	0%	0%	0%

Based on consolidated financial statements for financial years 2010/2011 and 2011/2012, the performance condition is achieved for 70% of an allotment of LTIP13 options and free shares. 10% of options and free shares are cancelled.

<u>LTI plan 14 granted on 4 October 2011:</u>

The total number of options exercisable and free shares to be delivered will depend on the Group's operating margin for the financial years 2011/2012, 2012/2013 and 2013/2014:

	% of options exercisable & free shares to be delivered		
	Year ended 31 March 2012	Year ended 31 March 2013	Year ended 31 March 2014
Operating margin achieved above or equal to 7.5%	40%	40%	20%
Operating margin achieved between 7% (inclusive) and 7.5% (non inclusive)	30%	30%	10%
Operating margin achieved between 6.5% (inclusive) and 7% (non inclusive)	10%	10%	0%
Operating margin achieved below 6.5%	0%	0%	0%

For financial year 2011/2012, based on consolidated financial statements, the performance condition is achieved for 30% of an allotment of LTIP14 options and free shares. 10% of options and free shares are cancelled.

Movements

	Number of options	Weighted average exercise price per share in €	Number of free shares
Outstanding at 31 March 2010 (*)	**7,945,914**	**42.27**	**1,177,216**
Granted	1,235,120	33.14	740,860
Exercised	(364,619)	19.31	(102,000)
Cancelled	(960,483)	51.29	(485,676)
Outstanding at 31 March 2011	**7,855,932**	**39.15**	**1,330,400**
Granted	1,369,180	26.39	804,040
Exercised	(192,417)	18.78	(121,830)
Cancelled	(304,858)	40.54	(91,680)
Outstanding at 31 March 2012	**8,727,837**	**37.42**	**1,920,930**
of which exercisable	5,521,007		n/a

(*) On 11 May 2010, 101,560 free shares were allocated to beneficiaries of French companies.

Valuation

	Plan n°11	Plan n°11	Plan n°12	Plan n°12	Plan n°13	Plan n°13	Plan n°14	Plan n°14
	stock options	free shares	stock options	free shares	stock options	free shares	stock options	free shares
Grant date	23/09/2008	23/09/2008	21/09/2009	21/09/2009	13/12/2010	13/12/2010	04/10/2011	04/10/2011
expected life (in years)	3.5	2.5 or 4.0	3.5	2.5 or 4.0	3.5	2.5 or 4.0	4.0	2.5 or 4.0
End of vesting period	22/09/2011	31/05/2012 or 22/09/2012	20/09/2012	31/05/2013 or 20/09/2013	12/12/2013	31/05/2013 or 12/12/2014	03/10/2014	31/05/2014 or 03/10/2015
Adjusted exercise price (*) (in €)	66.47	n/a	49.98	n/a	33.14	n/a	26.39	n/a
Share price at grant date (in €)	65.10	65.10	50.35	50.35	35.40	35.40	23.82	23.82
Volatility	30%	n/a	30%	n/a	31%	n/a	31%	n/a
Risk free interest rate	4.1%	4.2% or 4.4%	2.0%	1.6% or 2.3%	1.8%	1.4% or 2.0%	1.5%	1.1% or 1.5%
Dividend yield	1.3%	1.3%	1.3%	1.3%	3.1%	3.1%	5.0%	5.0%

(*) The exercise price corresponds to the average opening price of the shares during the twenty trading days preceding the day on wich the options were granted by the Board (no discount or surcharge).

The option valuation method follows a binomial mathematical model for plan 11 and a Black & Scholes model for plans 12, 13 and 14, with exercise of the options anticipated and spread over the exercise period on a straight-line basis. The volatility factor applied is an average of CAC40 comparable companies' volatility at the grant date.

The Group booked a total expense of €11 million for the year ended 31 March 2012, and €11 million for the year ended 31 March 2011.

21.2 Stock appreciation rights ("SARs")

Key characteristics

	SARs n°7	SARs n°8	Notional SARs (1)	SARs n°9	SARs n°10
Grant date	01/12/2004	18/11/2005	16/12/2005	28/09/2006	25/09/2007
Vesting date	17/09/2007	27/09/2008	27/09/2008	28/09/2009	25/09/2010
Expiry date	16/09/2014	18/11/2015	26/09/2015	28/09/2016	24/09/2017
Number of beneficiaries	114	120	120	134	134
Adjusted number granted (2)	478,000	234,000	232,000	341,250	59,700
Adjusted number exercised since the origin	408,286	129,250	194,702	172,500	5,100
Adjusted number cancelled since the origin	69,052	43,100	37,000	53,125	4,200
Ajusted number outstanding at 31 March 2012	662	61,650	298	115,625	50,400
Adjusted exercise price (3) (in €)	8.60	22.45	17.88	36.05	73.42

(1) Notionnal SARs have been granted at an exercise price of €17.88 and are capped at €22.45.

(2) The number of SARs and their exercise prices have been adjusted as a result of transactions that have impacted the number of capital shares after grant dates.

(3) The exercise price corresponds to the average opening price of the shares during the twenty trading days preceding the day on wich the options were granted by the Board (no discount or surcharge).

Movements

	Number of SARs	Weighted average exercise price per share in €
Outstanding at 31 March 2010	**302,744**	**36.87**
Granted	-	-
Exercised	(86,490)	35.73
Cancelled	28,550	43.21
Outstanding at 31 March 2011	**244,804**	**40.15**
Granted	-	-
Exercised	(16,169)	35.69
Cancelled	-	-
Outstanding at 31 March 2012	**228,635**	**40.52**
of which exercisable	228,635	

Valuation

	SARs n°7	SARs n°8	Notional SARs (1)	SARs n°9	SARs n°10
Grant date	01/12/2004	18/11/2005	16/12/2005	28/09/2006	25/09/2007
expected life (in years)	4.0	4.0	4.0	4.0	4.0
End of vesting period	17/09/2007	27/09/2008	27/09/2008	28/09/2009	24/09/2010
Adjusted exercise price (2) (in €)	8.60	22.45	17.88	36.05	73.42
Share price at 31 March 2012 (in €)	29.26	29.26	29.26	29.26	29.26
Share price at 31 March 2011 (in €)	41.73	41.73	41.73	41.73	41.73
Volatility	23%	23%	23%	23%	23%
Risk free interest rate	1.8%	1.8%	1.8%	1.8%	1.8%
Dividend yield	2.2%	2.2%	2.2%	2.2%	2.2%

(1) SARs of the Notional plan have been granted at an exercise price of €17.88 and are capped at €22.45.
(2) The number of SARs and their exercise prices have been adjusted as a result of transactions that have impacted the number of capital shares after grant dates.

All SARs granted are measured using a binomial model taking into account the terms and conditions according to which the instruments were granted.

The Group books a total income of € 2 million for the year ended 31 March 2012, and €2 million for the year ended 31 March 2011.

21.3 Share-based payments awarded to employees

Free shares

On 17 November 2005, the Group announced the attribution of twelve free shares to all employees, or the equivalent in cash (SARs) depending on the conditions in each country.

The cost related to the portion of the attribution to be settled in shares (€27 million) has been immediately offset in equity. The cost related to the portion of the attribution to be settled in cash is spread over the vesting period that extends until 16 May 2010 (€4 million income for the year ended 31 March 2011).

Note 22. Provisions

(in € million)	At 31 March 2011	Additions	Releases	Applications	Business combination	Translation adjustments and other	At 31 March 2012
Warranties	721	343	(138)	(227)	51	9	759
Litigations and claims	666	329	(205)	(156)	37	(16)	655
Current provisions (1)	**1,387**	**672**	**(343)**	**(383)**	**88**	**(7)**	**1,414**
Tax risks and litigations (2)	139	24	(9)	(19)	26	(6)	155
Restructuring (3)	361	41	(35)	(138)	0	2	231
Other non-current provisions (4)	595	103	(86)	(140)	(60)	6	418
Non-current provisions	**1,095**	**168**	**(130)**	**(297)**	**(34)**	**2**	**804**
Total provisions	**2,482**	**840**	**(473)**	**(680)**	**54**	**(5)**	**2,218**

(in € million)	At 31 March 2010	Additions	Releases	Applications	Business combination	Translation adjustments and other	At 31 March 2011
Warranties	484	381	(185)	(189)	223	7	721
Litigations and claims	697	392	(368)	(263)	212	(4)	666
Current provisions (1)	**1,181**	**773**	**(553)**	**(452)**	**435**	**3**	**1,387**
Tax risks and litigations (2)	92	50	(19)	(54)	69	1	139
Restructuring (3)	102	327	(11)	(68)	12	(1)	361
Other non-current provisions (4)	266	300	(78)	(47)	157	(3)	595
Non-current provisions	**460**	**677**	**(108)**	**(169)**	**238**	**(3)**	**1,095**
Total provisions	**1,641**	**1,450**	**(661)**	**(621)**	**673**	**0**	**2,482**

(1) Current provisions relate to warranties, litigations and claims on completed contracts.

(2) In relation to tax risks, the Group tax filings are subject to audit by tax authorities in most jurisdictions in which the Group operates. These audits may result in assessment of additional taxes that are subsequently resolved with the authorities or potentially through the courts. The Group believes that it has strong arguments against the questions being raised, that it would pursue all legal remedies to avoid an unfavourable outcome and that it has adequately provided for any risk that could result from those proceedings where it is probable that it will pay some amounts.

(3) In the last six months of the financial year ended 31 March 2011, the Group has started to implement fundamental reorganisations of its footprint in order to address the lower demand in developed countries (Europe and USA) and the fast growth of its markets in emerging countries.

(4) Other non-current provisions mainly relate to guarantees delivered in connection with disposals, employee litigations, commercial disputes and environmental obligations. Environmental provisions amount to €38 million at 31 March 2012 and €41 million at 31 March 2011.

Note 23. Post-employment and other long-term defined employee benefits

23.1 Change in defined benefit obligations

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Defined benefit obligations at beginning of year	**(4,892)**	**(4,251)**
Service cost	(83)	(74)
Plan participant contributions	(37)	(37)
Interest cost	(237)	(233)
Plan amendments	(4)	(9)
Business combinations / disposals	(15)	(382)
Curtailments	0	19
Settlements	(1)	10
Actuarial gains (losses) - due to experience	(35)	(25)
Actuarial gains (losses) - due to changes in assumptions	(263)	(124)
Benefits paid	303	295
Change in scope	0	0
Foreign currency translation	(257)	(81)
Defined benefit obligations at end of year	**(5,521)**	**(4,892)**
Of which:		
Funded schemes	(4,848)	(4,311)
Unfunded schemes	(673)	(581)

23.2 Change in plan assets

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Fair value of plan assets at beginning of year	**3,763**	**3,334**
Expected return on assets	233	217
Actuarial gains (losses) on assets due to experience	(26)	(27)
Company contributions	112	132
Plan participant contributions	37	37
Business combinations /disposals	0	204
Settlements	0	(10)
Benefits paid from plan assets	(247)	(216)
Change in scope	0	0
Foreign currency translation	225	92
Fair value of plan assets at end of year	**4,097**	**3,763**

23.3 Reconciliation of funded status of the plans with assets and liabilities recognised in the balance sheet

(in € million)	At 31 March 2012	At 31 March 2011
Funded status of the plans	**(1,424)**	**(1,129)**
Unrecognised past service costs (gains)	24	25
Impact of asset ceiling	(5)	(13)
Net of accrued and prepaid benefit costs after asset ceiling	**(1,405)**	**(1,117)**
Of which:		
Accrued pension and other employee benefit costs	***(1,417)***	***(1,145)***
Prepaid pension and other employee benefit costs	***12***	***28***

23.4 Details of funded status by geographical area

(in € million)	At 31 March 2012	At 31 March 2011
Euro Zone	(642)	(616)
Rest of Europe	(518)	(292)
North America	(215)	(185)
South & Central America	(16)	(10)
Asia/ Pacific	(28)	(21)
Middle East/ Africa	(5)	(5)
Total Group	**(1,424)**	**(1,129)**

23.5 Changes of accrued pensions and other employee benefits recognised in comprehensive income

Actuarial gains and losses and asset ceiling arising from post-employment defined benefit plans have been recognised in other comprehensive income as follows:

(in € million)	At 31 March 2012	At 31 March 2011
Opening balance (net loss)	**(1,546)**	**(1,363)**
Actuarial gains /(losses) generated during the period	(324)	(176)
Asset ceiling generated during the period	7	(7)
Closing balance (net loss)	**(1,863)**	**(1,546)**

23.6 Components of plan assets

(in € million)	At 31 March 2012	%	At 31 March 2011	%
Equities	1,431	34.9	1,417	37.7
Bonds	2,166	52.9	1,898	50.4
Properties	361	8.8	340	9.0
Others	139	3.4	108	2.9
Total	**4,097**	100	**3,763**	100

Plan assets for each individual plan are invested in accordance with statutory regulations, pension plan rules, and decisions of pension fund trustees. At 31 March 2012, plan assets do not include any of the Group's capital stock.

23.7 Assumptions (weighted average rates)

(in %)	At 31 March 2012	At 31 March 2011
Discount rate	4.29	4.82
Rate of compensation increase	2.92	3.03
Expected return on plan assets	5.10	6.03

Actuarial assumptions used vary by country and type of plan. Compensation increase assumptions are determined at business unit level and reviewed centrally. The expected return on plan assets is based on long-term market expectations taking into account the asset allocation of each fund.

The healthcare trend rate is assumed to be 8% in the year ended 31 March 2012 and reduces thereafter to an ultimate rate of 5% from 2019 onwards.

Sensitivity analysis shows that a 50-point increase in discount rates would reduce the Group obligations by approximately €347 million. A 50-point decrease in discount rates would increase the Group obligations by approximately €361 million.

For the year ended 31 March 2012, the effective return on assets was 5.57%.

23.8 Analysis of post-employment and other long-term defined benefit expense

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Service cost	(83)	(74)
Defined contributions *plans(*)*	(181)	(155)
Income from operations	**(264)**	**(229)**
Actuarial gains/(losses) on other long-term benefits	1	(1)
Amortisation of unrecognised past service gain (cost)	(5)	28
Curtailments/settlements	(1)	19
Other income (expenses)	**(5)**	**46**
Interest cost	(237)	(233)
Expected return on plan assets	233	217
Financial income (expenses)	**(4)**	**(16)**
Total benefit expense	**(273)**	**(199)**

(*) Excluding Grid's contribution for year ended 31 March 2011.
Including an expense of € 15 million related to multi-employer contributions accounted for as defined contribution plans for the year ended 31 March 2012 (€10 million for the year ended 31 March 2011).

Total cash spent in the year ended 31 March 2012 amounted respectively to €168 million and €181 million for defined benefit and defined contribution plans (€211 million and €155 (*)million for the year ended 31 March 2011).
The company's best estimate of contributions to defined benefit and defined contribution plans expected to be paid in the year ended 31 March 2013 is approximately €380 million, of which €202 million of employer contributions to defined benefits plans.

(*) *excluding Grid's amount*

Note 24. Financial debt

Carrying amount (in € million)	**At 31 March 2012**	**At 31 March 2011**
Bonds	3,795	3,238
Other borrowing facilities	415	611
Put options and earn-out on acquired entities (*)	229	20
Derivatives relating to financing activities	17	18
Accrued interests	41	37
Borrowings	**4,497**	**3,924**
Non-current	*3,863*	*3,346*
Current	*634*	*578*
Obligations under finance leases	125	137
Other obligations under long-term rental	400	405
Obligations under finance leases	**525**	**542**
Non-current	*477*	*491*
Current	*48*	*51*
Total financial debt	**5,022**	**4,466**

(*) includes the remainder price of TMH's acquisition to be paid by the end of 2012 (see Note 3)

The following table summarises the significant components of the Group's bonds:

	Nominal value (in € million)	**Maturity date**	**Nominal interest rate**	**Effective interest rate**
Alstom September 2014	750	23/09/2014	4.00%	3.89%
Alstom March 2015	60	09/03/2015	4.25%	4.47%
Alstom October 2015	500	05/10/2015	2.88%	2.98%
Alstom March 2016	500	02/03/2016	3.87%	4.05%
Alstom February 2017	750	01/02/2017	4.13%	4.25%
Alstom October 2018	500	05/10/2018	3.63%	3.71%
Alstom March 2020	750	18/03/2020	4.50%	4.58%

The other obligations under long-term rental debt represent liabilities related to lease obligations on trains and associated equipment (see Note 13 and 29).

Note 25. Financial instruments and financial risk management

25.1 Financial instruments reported in the financial statements

The Group's financial liabilities comprise borrowings, trade and other payables. The main purpose of these financial liabilities is to raise funds for the Group's operations.
The Group has loans, trade and other receivables, and cash and cash equivalents that are directly derived from its operations.

The Group is exposed to currency risk, interest rate risk, credit risk and liquidity risk.

The main valuation methods applied are as follows:
- borrowings, when unhedged, are stated at amortised cost, determined by the effective interest rate method,
- the fair value of cash, cash equivalents, trade receivables and trade payables is considered as being equivalent to carrying value, due to their short maturities,
- the fair value of the financial debt is estimated based on either quoted market prices for traded instruments or current rates offered to the Group for debt of the same maturity.

The fair value of derivative instruments is the estimated amount that the Group would receive or pay to settle the related contracts, valued on the basis of relevant yield curves and foreign exchange rates at closing date.

Year ended 31 March 2012

Balance sheet positions at 31 March 2012

At 31 March 2012 (in € million)	Balance sheet carrying amount	Carrying amount not defined as financial instruments	Carrying amount of financial instruments by categories (*)					Fair value of items classified as financial instruments			
			FV P/L	AFS	LRL at amortised cost	DER	Total	Listed prices	Internal model based on observables factors	Internal model not based on observables factors	Total
Associates and available for sale assets	**531**	**377**	-	154	-	-	**154**	-	154	-	**154**
Other non-current assets	**545**	**12**	-	-	533	-	**533**	-	107	426	**533**
Trade receivables	**5,692**	**-**	-	-	5,692	-	**5,692**	-	5,692	-	**5,692**
Other current operating assets	**3,557**	**2,180**	647	-	447	283	**1,377**	-	1,377	-	**1,377**
Marketable securities and other current financial assets	**13**	**-**	3	-	-	10	**13**	-	13	-	**13**
Cash and cash equivalents	**2,091**	**-**	2,091	-	-	-	**2,091**	-	2,091	-	**2,091**
Assets	**12,429**	**2,569**	**2,741**	**154**	**6,672**	**293**	**9,860**	**-**	**9,434**	**426**	**9,860**
Non-current borrowings	**3,863**	**-**	-	-	3,863	-	**3,863**	-	4,042	-	**4,042**
Non-current obligations under finance leases	**477**	**-**	-	-	477	-	**477**	-	477	-	**477**
Current borrowings	**634**	**-**	-	-	617	17	**634**	-	634	-	**634**
Current obligations under finance leases	**48**	**-**	-	-	48	-	**48**	-	48	-	**48**
Trade payables	**4,080**	**-**	-	-	4,080	-	**4,080**	-	4,080	-	**4,080**
Other current operating liabilities	**4,192**	**1,933**	253	-	1,364	642	**2,259**	-	2,259	-	**2,259**
Liabilities	**13,294**	**1,933**	**253**	**-**	**10,449**	**659**	**11,361**	**-**	**11,540**	**-**	**11,540**

(*) FV P/L short for fair value through profit and loss; AFS short for available-for-sale assets; LRL short for loans, receivables and liabilities and DER short for derivative instruments.

Financial income and expense arising from financial instruments for period ended 31 March 2012

(in € million)	FV P/L	AFS	LRL at amortised cost inc. related derivatives	Total
Interests	1	-	(143)	**(142)**
Interest income	*1*	*-*	*36*	*37*
Interest expense	*-*	*-*	*(179)*	*(179)*
Dividends	-	5	-	**5**
Impairment/loss from subsequent measurement	-	(1)	-	**(1)**
Gain on disposal	-	-	-	**-**
Foreign currency and other	-	-	(35)	**(35)**
Net income/expense for the year ended 31 March 2012	**1**	**4**	**(178)**	**(173)**

The amount reported as “foreign currency and other” is mainly representative of forward points attached to transactions related to financing activities (See Note 2.3.9) and bank fees (see Note 7).

Income from operations arising from financial instruments for the period ended 31 March 2012

Net foreign currency gains and losses recorded within income from operations are positive by €47 million for the year ended 31 March 2012. They are comprised essentially of forward points at mark to market of the hedging instruments.

Year ended 31 March 2011

Balance sheet positions at 31 March 2011

			Carrying amount of financial instruments by categories (*)					Fair value of items classified as financial instruments			
At 31 March 2011 (in € million)	**Balance sheet carrying amount**	**Carrying amount not defined as financial instruments**	FV P/L	AFS	LRL at amortised cost	DER	**Total**	Listed prices	Internal model based on observables factors	Internal model not based on observables factors	**Total**
Associates and available for sale assets	**207**	**43**	-	164	-	-	**164**	-	164	-	**164**
Other non-current assets	**567**	**27**	-	-	540	-	**540**	-	111	429	**540**
Trade receivables	**6,053**	**-**	-	-	6,053	-	**6,053**	-	6,053	-	**6,053**
Other current operating assets	**2,945**	**1,650**	513	-	417	365	**1,295**	-	1,295	-	**1,295**
Marketable securities and other current financial assets	**50**	**-**	17	-	-	33	**50**	-	50	-	**50**
Cash and cash equivalents	**2,701**	**-**	2,701	-	-	-	**2,701**	-	2,701	-	**2,701**
Assets	**12,523**	**1,720**	**3,231**	**164**	**7,010**	**398**	**10,803**	**-**	**10,374**	**429**	**10,803**
Non-current borrowings	**3,346**	**-**	-	-	3,346	-	**3,346**	-	3,346	-	**3,346**
Non-current obligations under finance leases	**491**	**-**	-	-	491	-	**491**	-	491	-	**491**
Current borrowings	**578**	**-**	-	-	560	18	**578**	-	578	-	**578**
Current obligations under finance leases	**51**	**-**	-	-	51	-	**51**	-	51	-	**51**
Trade payables	**4,071**	**-**	-	-	4,071	-	**4,071**	-	4,071	-	**4,071**
Other current operating liabilities	**4,063**	**1,472**	311	-	1,717	563	**2,591**	-	2,591	-	**2,591**
Liabilities	**12,600**	**1,472**	**311**	**-**	**10,236**	**581**	**11,128**	**-**	**11,128**	**-**	**11,128**

(*) FV P/L short for fair value through profit and loss; AFS short for available-for-sale assets; LRL short for loans, receivables and liabilities and DER short for derivative instruments.

The fair value of derivative instruments is the estimated amount that the Group would receive or pay to settle the related contracts, valued on the basis of relevant yield curves and foreign exchange rates at closing date.

Financial income and expense arising from financial instruments for period ended 31 March 2011

(in € million)	FV P/L	AFS	LRL at amortised cost inc. related derivatives	**Total**
Interests	3	-	(89)	**(86)**
Interest income	*3*	*-*	*46*	*49*
Interest expense	*-*	*-*	*(135)*	*(135)*
Dividends	-	4	-	**4**
Impairment/loss from subsequent measurement	-	1	-	**1**
Gain on disposal	-	-	-	**-**
Foreign currency and other	-	-	(39)	**(39)**
Net income/expense for the year ended 31 March 2011	**3**	**5**	**(128)**	**(120)**

The amount reported as “foreign currency and other” is mainly representative of forward points attached to transactions related to financing activities (See Note 2.3.9) and bank fees (see Note 7).

Income from operations arising from financial instruments for the period ended 31 March 2011

Net foreign currency gains and losses recorded within income from operations are positive by €14 million for the year ended 31 March 2011.

They are made up of two components:

- forward points attached to hedging transactions qualified for hedge accounting,
- variation of fair value of instruments hedging future cash flows and not qualifying for hedge accounting.

25.2 Currency risk management

Financial debt

The nominal value of the financial debt split by currency is as follows:

(in € million)	At 31 March 2012	At 31 March 2011
Euro	4,284	3,686
US Dollar	12	52
British Pound	425	422
Other currencies	316	320
Financial debt in nominal value	**5,037**	**4,480**

The debt in GBP essentially originates from a long-term lease scheme of trains, involving London Underground. The related €400 million debt denominated in GBP is counter-balanced by long-term receivables having the same maturity and also denominated in GBP that are recognised as non-current assets (see Notes 13, 24 and 29).

Operations

In the course of its operations, the Group is exposed to currency risk arising from tenders submitted in foreign currency, awarded contracts and any future cash out transactions denominated in foreign currency. Main currencies triggering a significant exposure for the year ended 31 March 2012 are the Swiss Franc and the US dollar.

During the tender period, depending on the probability to obtain the project and on market conditions, the Group can hedge a portion of its tenders using options or export insurance contracts when possible. Once the contract is signed, forward exchange contracts are used to hedge the actual exposure during the life of the contract (either as the only hedging instruments or as a complement to existing export insurance contracts).

The Group requires all of its operating units to use forward currency contracts to eliminate the currency exposure on any individual sale or purchase transaction in excess of €100,000. Forward currency contracts must be denominated in the same currency as the hedged item. It is the Group’s policy to negotiate the terms of hedge derivatives to match the terms of hedged items to maximise hedge effectiveness.

Derivative instruments hedging foreign currency risk are recognised at their fair value on the balance sheet as follows:

(in € million)	At 31 March 2012 Assets	At 31 March 2012 Liabilities	At 31 March 2011 Assets	At 31 March 2011 Liabilities
Derivatives qualifying for fair value hedge	290	637	348	569
Derivatives qualifying for cash flow hedge	1	24	31	7
Derivatives qualifying for net investment hedge	-	-	-	-
Derivatives not qualifying for hedge accounting	2	1	1	2
Total	**293**	**662**	**380**	**578**

The fair value of those instruments is the estimated amount that the Group would receive or pay to settle the related contracts, valued on the basis of relevant yield curves and foreign exchange rates at closing date.

High volatility of foreign exchange rates during the periods ended 31 March 2012 and 31 March 2011 explains the significant amount of fair value of derivative instruments (either positive or negative). For instruments that qualify for fair value hedge accounting, any change in fair value is mostly offset by the re-measurement of the underlying exposure (either on balance sheet or off-balance sheet).

The following table shows the sensitivity of the Group's pre-tax income to a change in the US dollar and Swiss Franc exchange rates. The effects on pre-tax income arise from derivative instruments not qualifying for hedge accounting while the effect on income and expense directly recognised in equity is due to the measurement of the effective portion of derivative instruments qualifying for cash flow hedge accounting.

	USD rate			**CHF rate**		
	Variation	Effect on pre-tax income	Effect on income and expense directly recognised in equity	Variation	Effect on pre-tax income	Effect on income and expense directly recognised in equity
Year ended 31 March 2012	10%	3	-	5%	-	8
	-10%	(3)	-	-5%	-	(8)
Year ended 31 March 2011	10%	-	-	5%	-	(15)
	-10%	-	-	-5%	-	15

The effective portion of instruments qualifying for cash flow hedge accounting reclassified from equity to profit or loss during the year ended 31 March 2012 is positive by €36 million.

25.3. Interest rate risk management

The Group has not implemented an active interest rate risk management policy. However under the supervision of the Executive Committee, it may enter into transactions in order to hedge its interest rate risk on a case-by-case basis according to market opportunities.

Carrying amount (in € million)	**At 31 March 2012**	**At 31 March 2011**
Financial assets at floating rate	2,140	2,793
Financial assets at fixed rate	465	454
Financial assets bearing interests	**2,605**	**3,247**
Financial debt at floating rate	102	40
Financial debt at fixed rate, put options and earn-out on acquired entities	4,920	4,426
Financial debt	**5,022**	**4,466**
Total position at floating rate before swaps	2,242	2,833
Total position at fixed rate before swaps	5,385	4,880
Total position before hedging	**7,627**	**7,713**
Total position at floating rate after swaps	2,242	2,833
Total position at fixed rate after swaps	5,385	4,880
Total position after hedging	**7,627**	**7,713**

Sensitivity is analysed based on the group's net cash position after hedging at 31 March 2012, assuming that it remains constant over one year.

In absence of instruments hedging the interest risk, the effects of increases or decreases in market rates are symmetrical: a rise of 0.4% would increase the net interest income by €8 million while a fall of 0.4% would decrease it by the same amount.

25.4. Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a loss. The Group is exposed to credit risk on its operating activities (primarily for trade receivables) and from its financing activities, including deposits, foreign currency hedging instruments and other financial instruments with banks and financial institutions.

Risk related to customers

The Group believes that the risk of a counterpart failing to perform as contracted, which could have a significant impact on the Group's financial statements or results of operations, is limited because the Group seeks to ensure that customers generally have strong credit profiles or adequate financing to meet their project obligations.

In specific cases, the Group may use export credit insurance policies which may hedge up to 90% of the credit risk on certain contracts.

Risk related to other financial assets

The Group's exposure to credit risk related to other financial assets arises from default of the counterpart, with a maximum exposure equal to the carrying amount of those instruments. The financial instruments are taken out with over 30 different counterparties and the risk is therefore highly diluted.

Risk related to cash and cash equivalents

Credit risk from balances with banks and financial institutions is managed by Group treasury in accordance with the Group's policy. At 31 March 2012 and at 31 March 2011, as part of the central treasury management, cash and cash equivalents are invested entirely in deposits with bank counterparts of first rank noted "Investment Grade".

The Group's parent company has access to some cash held by wholly-owned subsidiaries through the payment of dividends or pursuant to intercompany loan arrangements. However local constraints can delay or restrict this access. Furthermore, while the Group's parent company has the power to control decisions of subsidiaries of which it is the majority owner, its subsidiaries are distinct legal entities and their payment of dividends and granting of loans, advances and other payments to the parent company may be subject to legal or contractual restrictions, be contingent upon their earnings or be subject to business or other constraints. These limitations include local financial assistance rules and corporate benefit laws.

The Group's policy is to centralise liquidity of subsidiaries at the parent company's level when possible. Restricted cash and cash equivalents available at subsidiary level were €350 million and €398 million at 31 March 2012 and 31 March 2011, respectively.

25.5. Liquidity risk management

Financial covenants

At 31 March 2012, to increase its liquidity, the Group has in place a €1,350 million revolving credit facility fully undrawn maturing in December 2016, this replaces the previous facility of €1,000 million. This facility is subject to the following financial covenants, based on consolidated data:

Covenants	Minimum Interest Cover	Maximum total debt (€m)	Maximum total net debt leverage
	(a)	(b)	(c)
	3	5,000	3.6

(a) Ratio of EBITDA (Earnings Before Interest and Tax plus Depreciation and Amortisation) to net interest expense (excluding interest related to obligations under finance lease). It amounts to 12.5 at year end 31 March 2012 (19.1 at year end 31 March 2011).
(b) Total debt corresponds to borrowings, i.e. total financial debt less finance lease obligations. This covenant ceases to apply since the Group has an "Investment grade" rating.
(c) Ratio of total net debt (Total debt less short-term investments or trading investments and cash and cash equivalents) to EBITDA. The net debt leverage as at 31 March 2012 is 1.4 (0.8 at 31 March 2011).

Cash Flow

The Group's objective is to maintain a strong liquidity. A revolving cash planning tool is used to monitor the Group's liquidity needs.

The following tables show the remaining maturities of all financial assets and liabilities held at 31 March 2012 and 31 March 2011.

Planning data for future new assets and liabilities are not reported. Amounts in foreign currency are translated at the closing rate. The variable interest payments are calculated using the last interest rates available at the closing date. Assets and liabilities that can be repaid at any time are always assigned to the earliest possible time period.

Financial instruments held at 31 March 2012

Cash flow arising from instruments included in net cash at 31 March 2012

Cash flow for the years ended 31 March (in € million)	Carrying amount	2013 Interests	2013 Repayment	2014 Interests	2014 Repayment	2015-2017 Interests	2015-2017 Repayment	2018 and thereafter Interests	2018 and thereafter Repayment
Other non-current assets	426	28	28	26	25	66	97	9	276
Marketable securities and other current financial assets	13	-	13	-	-	-	-	-	-
Cash and cash equivalents	2,091	8	2,091	-	-	-	-	-	-
Assets	**2,530**	**36**	**2,132**	**26**	**25**	**66**	**97**	**9**	**276**
Non-current borrowings	(3,863)	-	-	(152)	(21)	(285)	(2,571)	(79)	(1,271)
Non-current obligations under finance leases	(477)	-	-	(31)	(41)	(76)	(150)	(13)	(286)
Current borrowings	(634)	(165)	(634)	-	-	-	-	-	-
Current obligations under finance leases	(48)	(33)	(48)	-	-	-	-	-	-
Liabilities	**(5,022)**	**(198)**	**(682)**	**(183)**	**(62)**	**(361)**	**(2,721)**	**(92)**	**(1,557)**
Net cash	**(2,492)**	**(162)**	**1,450**	**(157)**	**(37)**	**(295)**	**(2,624)**	**(83)**	**(1,281)**

Cash flow arising from operating derivatives at 31 March 2012

Cash flow for the years ended 31 March (in € million)	Carrying amount	2013 Interests	2013 Repayment	2014 Interests	2014 Repayment	2015-2017 Interests	2015-2017 Repayment	2018 and thereafter Interests	2018 and thereafter Repayment
Other current operating assets	283	-	147	-	76	-	40	-	20
Assets	**283**	**-**	**147**	**-**	**76**	**-**	**40**	**-**	**20**
Other current operating liabilities	(642)	-	(422)	-	(92)	-	(114)	-	(14)
Liabilities	**(642)**	**-**	**(422)**	**-**	**(92)**	**-**	**(114)**	**-**	**(14)**
Derivatives	**(359)**	**-**	**(275)**	**-**	**(16)**	**-**	**(74)**	**-**	**6**

Cash flow arising from instruments included in other financial assets and liabilities at 31 March 2012

Cash flow for the years ended 31 March (in € million)	Carrying amount	2013 Interests	2013 Repayment	2014 Interests	2014 Repayment	2015-2017 Interests	2015-2017 Repayment	2018 and thereafter Interests	2018 and thereafter Repayment
Other investments	154	-	-	-	-	-	-	-	154
Other non-current assets	107	-	63	-	1	-	2	-	41
Trade receivables	5,692	-	5,692	-	-	-	-	-	-
Other current operating assets	1,094	-	1,094	-	-	-	-	-	-
Assets	**7,047**	**-**	**6,849**	**-**	**1**	**-**	**2**	**-**	**195**
Trade payables	(4,080)	-	(4,080)	-	-	-	-	-	-
Other current operating liabilities	(1,618)	-	(1,618)	-	-	-	-	-	-
Liabilities	**(5,698)**	**-**	**(5,698)**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial assets and liabilities	**1,349**	**-**	**1,151**	**-**	**1**	**-**	**2**	**-**	**195**

Financial instruments held at 31 March 2011

Cash flow arising from instruments included in net cash at 31 March 2011

		2012		2013		2014-2016		2017 and thereafter	
Cash flow for the years ended 31 March (in € million)	**Carrying amount**	**Interests**	**Repayment**	**Interests**	**Repayment**	**Interests**	**Repayment**	**Interests**	**Repayment**
Other non-current assets	429	29	28	27	26	69	81	27	294
Marketable securities and other current financial assets	50	-	50	-	-	-	-	-	-
Cash and cash equivalents	2,701	24	2,701	-	-	-	-	-	-
Assets	**3,180**	**53**	**2,779**	**27**	**26**	**69**	**81**	**27**	**294**
Non-current borrowings	(3,346)	-	-	(130)	(27)	(251)	(1,310)	(206)	(2,009)
Non-current obligations under finance leases	(491)	-	-	(31)	(45)	(80)	(131)	(32)	(315)
Current borrowings	(578)	(132)	(578)	-	-	-	-	-	-
Current obligations under finance leases	(51)	(34)	(51)	-	-	-	-	-	-
Liabilities	**(4,466)**	**(166)**	**(629)**	**(161)**	**(72)**	**(331)**	**(1,441)**	**(238)**	**(2,324)**
Net cash	**(1,286)**	**(113)**	**2,150**	**(134)**	**(46)**	**(262)**	**(1,360)**	**(211)**	**(2,030)**

Cash flow arising from operating derivatives at 31 March 2011

		2012		2013		2014-2016		2017 and thereafter	
Cash flow for the years ended 31 March (in € million)	**Carrying amount**	**Interests**	**Repayment**	**Interests**	**Repayment**	**Interests**	**Repayment**	**Interests**	**Repayment**
Other current operating assets	365	-	245	-	77	-	40	-	3
Assets	**365**	**-**	**245**	**-**	**77**	**-**	**40**	**-**	**3**
Other current operating liabilities	(563)	-	(227)	-	(256)	-	(66)	-	(14)
Liabilities	**(563)**	**-**	**(227)**	**-**	**(256)**	**-**	**(66)**	**-**	**(14)**
Derivatives	**(198)**	**-**	**18**	**-**	**(179)**	**-**	**(26)**	**-**	**(11)**

Cash flow arising from instruments included in other financial assets and liabilities at 31 March 2011

		2012		2013		2014-2016		2017 and thereafter	
Cash flow for the years ended 31 March (in € million)	**Carrying amount**	**Interests**	**Repayment**	**Interests**	**Repayment**	**Interests**	**Repayment**	**Interests**	**Repayment**
Other investments	164	-	-	-	-	-	-	-	164
Other non-current assets	111	-	55	-	21	-	2	-	33
Trade receivables	6,053	-	6,053	-	-	-	-	-	-
Other current operating assets	930	-	930	-	-	-	-	-	-
Assets	**7,258**	**-**	**7,038**	**-**	**21**	**-**	**2**	**-**	**197**
Trade payables	(4,071)	-	(4,071)	-	-	-	-	-	-
Other current operating liabilities	(2,028)	-	(2,028)	-	-	-	-	-	-
Liabilities	**(6,099)**	**-**	**(6,099)**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial assets and liabilities	**1,159**	**-**	**939**	**-**	**21**	**-**	**2**	**-**	**197**

25.6 Commodity risk management

Most of commodities bought by the Group has already been modified and included into spare parts. For the other commodities, the Group has included into customer contracts a customer price adjustment clause, so that the Group has a limited exposure to the variation of commodity prices.

Note 26. Other current operating liabilities

(in € million)	At 31 March 2012	At 31 March 2011
Staff and associated costs	1,069	1,050
Corporate income tax	116	56
Other taxes	643	339
Deferred income	98	19
Other payables	1,371	1,725
Derivatives relating to operating activities	642	563
Remeasurement of hedged firm commitments in foreign currency	253	311
Other current operating liabilities	**4,192**	**4,063**

Note 27. Employee benefit expense and headcount

(in € million)	Year ended 31 March 2012	Year ended 31 March 2011
Wages and salaries	4,188	4,326
Social charges	962	1,083
Post-employment and other long-term benefit expense (*) (see Note 23)	273	199
Share-based payment expense (see Note 21)	9	5
Total employee benefit expense	**5,432**	**5,613**

(*) Excluding Grid's amounts for year ended 31 March 2011.

	At 31 March 2012	At 31 March 2011
Staff of consolidated companies at year end		
Managers, engineers and professionals	42,532	41,301
Other employees	42,917	43,924
Headcount (*)	**85,449**	**85,225**

(*) Headcount doesn't include any temporary people

Note 28. Contingent liabilities and disputes

28.1 Contingent liabilities

Commercial obligations

Contractual obligations of the Group towards its customers may be guaranteed by bank bonds or insurance bonds. Bank and insurance bonds may guarantee liabilities already recorded on the balance sheet as well as contingent liabilities.

At 31 March 2012, the Group has in place both uncommitted bilateral lines in numerous countries up to €19.6 billion and a Committed Bonding Facility Agreement allowing issuance of instruments until 27 July 2013 for an amount of €8.275 billion.

At 31 March 2012, the total outstanding bonding guarantees related to contracts, issued by banks or insurance companies, amount to €15.9 billion (€15.7 billion at 31 March 2011).

The available amount under the Committed Bonding Facility at 31 March 2012 amounts to €1.4 billion (€2.1 billion at 31 March 2011). The issuance of new bonds under this bonding facility is subject to the financial covenants disclosed in Note 25.5. The available amount under bilateral lines at 31 March 2012 amounts to €10.1 billion.

Vendor financing

Until 2003, the Group provided some financial support, referred to as vendor financing, to financial institutions financing certain purchasers of Transport equipment.

At 31 March 2012, guarantees given as part of past vendor financing arrangements amount to €259 million.

Included in this amount are:

- guarantees totalling $63 million (€47 million and €44 million at 31 March 2012 and 31 March 2011 respectively) given with respect to equipment sold to a US train operator; and
- guarantees totalling £177 million (€212 million and €200 million at 31 March 2012 and 31 March 2011 respectively) given as part of a leasing scheme involving London Underground (Northern Line). Were London Underground Limited to decide not to extend the contract beyond 2017, and to hand the trains back, the Group has guaranteed to the lessors that the value of the trains and associated equipment, net of the £15 million non-extension payment due by London Underground, should not be less than £177 million in 2017. The £177 million is included in the €400 million amount of "Other obligations under long-term rental" (see Note 24).

28.2 Disputes

Disputes in the Group's ordinary course of business

The Group is engaged in several legal proceedings, mostly contract-related disputes that have arisen in the ordinary course of business. These disputes, often involving claims for contract delays or additional work, are common in the areas in which the Group operates, particularly for large long-term projects. In some cases, the amounts, which may be significant, are claimed against the Group, sometimes jointly with its consortium partners.

In some proceedings the amount claimed is not specified at the beginning of the proceedings. Amounts retained in respect of litigation are taken into account in the estimate of margin at completion in case of contracts in progress or included in provisions and other current liabilities in case of completed contracts when considered as reliable estimates of probable liabilities. Actual costs incurred may exceed the amount of initial estimates because of a number of factors including the inherent uncertainties of the outcome of litigation.

Asbestos

In France, some of the Group's subsidiaries are subject to civil proceedings in relation to the use of asbestos. These proceedings are initiated by certain employees or former employees suffering from an occupational disease in relation to asbestos with the aim of obtaining a court decision allowing them to obtain a supplementary compensation from the French Social Security (medical) funds.

In the United States, subsidiaries of the Group are also subject to asbestos-related personal injury lawsuits. The Group considers that it has valid defences in these cases and the number of outstanding cases is decreasing.

The Group believes that the cases where it may be required to bear the financial consequences of such civil or criminal proceedings both in France and the United States do not represent a material exposure. While the outcome of the existing asbestos-related cases cannot be predicted with reasonable certainty, the Group believes that these cases will not have any material adverse effect on its financial condition. It can give no assurance, however, that present asbestos-related cases or new cases it may face in the future may not have a material adverse impact on its financial condition.

United States Class Action Lawsuit

The Group has concluded a settlement, for a remaining cost for Alstom of less than €2 million relating to the class action lawsuits filed on behalf of various purchasers of American Depositary Receipts and other Alstom securities between August 1999 and August 2003 and consolidated in one complaint filed in June 2004. On 21 October 2011, the settlement was approved by the New York District Court. This decision which became final on 21 November 2011 closed the class action.

Alleged anti-competitive activities

GIS equipment

In April 2006, the European Commission commenced proceedings against Alstom, along with a number of other companies, based on allegations of anti-competitive practices in the sale of gas-insulated switchgears ("GIS equipment"), a product of its former Transmission & Distribution business sold to Areva in January 2004, following investigations that began in 2004.

On 24 January 2007, the European Commission levied a fine of €65 million against Alstom which includes €53 million on a joint and several basis with Areva T&D (Alstom Grid). Alstom has requested the cancellation of this decision before the General Court of the European Union. On 3 March 2011 the Court reduced the amount of fines levied against Alstom to €58.5 million out of which €48.1 million on a joint and several basis with Areva T&D (Alstom Grid). On 20 May 2011, Alstom requested the cancellation of this decision before the Court of Justice of the European Union. The latter's final decision is not expected to occur before beginning 2013.

Following the aforementioned European Commission decision of 24 January 2007, on 17 November 2008 National Grid commenced a civil action before the High Court of Justice in London to obtain damages against the manufacturers of GIS equipment, including Alstom and certain of its subsidiaries. National Grid asserts that it has suffered overall alleged damages from all manufacturers concerned of £ 249.3 million in total since it bought GIS equipment at inflated prices due to alleged anti-competitive arrangements between manufacturers. Alstom contests the facts. On 12 June 2009, the High Court of Justice in London decided a stay of proceeding until the European Commission decision of 24 January 2007 is final. During fiscal year 2010/11, two other similar civil actions have been started before national jurisdictions for a global amount of €24 million.

Power transformers

On 20 November 2008, the European Commission sent a statement of objections to a number of manufacturers of power transformers, including Alstom, concerning their alleged participation in anti-competitive arrangements. Alstom has contested the materiality of the alleged facts. On 7 October 2009, the European Commission levied a fine of €16.5 million against Alstom which includes €13.5 million on a joint and several basis with Areva T&D (Alstom Grid). Alstom has requested the cancellation of the decision before the General Court of the European Union on 21 December 2009. The hearings report is still awaited and the hearings which are not yet scheduled should not occur before end of 2012.

Boilers

The Group received a statement of objections issued by the German Federal Cartel Office ("FCO") on 22 December 2008, alleging breaches of German competition law in the field of steam generators for lignite-fired power plants. On 20 October 2011, the FCO levied a fine of €42 million against ALSTOM Power Systems GmbH and two of its former officers, as well as against two competitors now bankrupt for alleged cartel arrangements between 1990 and 2003. This decision is final and the fine has been paid by Alstom. In addition the Group has reached agreements with regard to three out of four potential customer claims for civil actions. On 29 December 2011 the fourth customer filed a civil action against a German Alstom affiliate before the Dortmund Regional Court for an amount of €33 million, plus interests. Alstom contests.

Alleged illegal payments

Certain companies and/or current and former employees of the Group have been or are currently being investigated in various countries, by judicial authorities and development banks with respect to alleged illegal payments. These procedures may result in fines, exclusion of Group subsidiaries from public tenders and third-party actions.

In France, on 6 October 2010, a Group's subsidiary in the Hydro business was formally charged for alleged illegal payments concerning past operations in Zambia. Consistent with the French prosecutor final request, the French investigation judge issued an order for dismissal on 7 June 2011, which closed the criminal procedure in France. In addition the World Bank sanctioned Alstom for improper payment of €110,000 made in 2002 in relation to a World Bank–financed Zambian power rehabilitation project. On 22 February 2012, as part of a negotiated resolution agreement, the World Bank announced its decision to debar ALSTOM Hydro France and ALSTOM Network Schweiz AG (Switzerland) and their affiliates from public tenders financed

by the World Bank for a period of 3 years, which can be reduced to 21 months subject to certain conditions Alstom intends to respect. The Group will also pay a restitution amount of $9.5 million. This debarment qualifies for cross-debarment by the other multilateral development banks pursuant to the Agreement of Mutual Recognition of Debarments signed on 9 April 2010.

In addition on 22 November 2011, the Swiss Office of Attorney General closed the investigations opened in 2007 to determine whether the Alstom Group and some of its entities had violated rules prohibiting the payment of foreign civil servants to unlawfully win commercial contracts. After thorough investigations, the Office of Attorney General has concluded the absence of any bribery system or so called slush funds used for bribery of civil servants to illegally obtain contracts and only sanctioned the company for corporate negligence in three isolated cases in Latvia, Tunisia and Malaysia, imposing a fine of CHF 2.5 million, to which is added the payment of an amount corresponding to the estimated alleged profits of the orders of CHF 36.4 million. Alstom has also paid reparation in the amount of CHF 1 million to the International Committee of the Red Cross for use in projects in Latvia, Tunisia and Malaysia. The Office of Attorney General has issued a dismissal order acquitting the Alstom Group and its entities of any additional wrongdoing, fully closing its investigations.

US litigation following an accident in the Washington D.C. metro

On 22 June 2009, a collision between two metro trains occurred in the Washington D.C. metro resulting in the death of 9 persons and the injury of 52 persons. The claims against Alstom Signaling Inc. initially amounted to approximately $475 million. A report of the National Transportation Safety Board on the causes of the accident partially implicated equipment supplied by Alstom Signaling Inc. As of today, 120 claims have been made. The 20 most serious claims were asserted through lawsuits. Of these 20 claims, 16 have been settled for a remaining cost for Alstom of about $6 million. The hearings of the remaining 4 lawsuits have been postponed to October-November 2012. The total amount claimed in relation to these 4 cases is approximately $140 million. The remaining cases are being asserted through an alternative claims process, of which 69 have been settled. These claims have been declared to the Group’s insurers and Alstom believes it has adequate insurance coverage.

Budapest metro

In 2006, Alstom was awarded by BKV a contract for the delivery of 22 Metropolis metros for Line 2 and 15 metros for Line 4 for the city of Budapest. During the execution of the project, Alstom experienced delays mostly related to technical change requests from BKV and the refusal by the Hungarian Authority "NKH" to deliver the final train homologation. In August 2007, NKH granted a Preliminary Type License, but, in October 2010, NKH refused to grant the final homologation ("Final Type License"). On 19 October 2010 BKV terminated the contract and called immediately thereafter all bank guarantees amounting in total to approximately €130 million. On 25 October 2010, the French Court of Nanterre served a provisional injunction and ordered the bank not to pay considering that BKV manifestly misused its right to call the bank guarantees. BKV has appealed this decision before the French Court of Versailles. On 8 June 2011 this Court has invalidated the decision of the Court of Nanterre and ordered payment. In July 2011 the parties agreed the re-entry into force of the contract and the suspension of the arbitration procedure. The homologation process for the Final Type License is on-going.

Lignite-fired station in Maritza

In 2006, Alstom was awarded by AES a contract for the manufacture of a lignite-fired station in Maritza, Bulgaria. During the execution of the project, Alstom experienced delays and works disruptions mostly due to the defective nature of the lignite supplied by AES. In March 2011, AES terminated the contract. Prior to termination, AES called its performance bank guarantee. On 10 February 2011, the French Court of Nanterre served a provisional injunction and ordered the bank not to pay, considering that AES manifestly misused its right to call the bank guarantee. AES has appealed this decision before the French Court of Versailles. On 6 July 2011, this Court has invalidated the decision of the Court of Nanterre and ordered payment of approximately €150 million. An arbitration procedure initiated by Alstom on 22 January 2011, for wrongful termination notably, is on-going. According to the latest arbitral timetable, the hearings before the Arbitral Tribunal are postponed until March 2013.

There are no other governmental, legal or arbitration procedures, including proceedings of which the Group is aware and which are pending or threatening, which might have, or have had during the last twelve months, a significant impact on the financial situation or profitability of the Group.

Note 29. Lease obligations

(in € million)	Total	Maturity of lease payments Within 1 year	1 to 5 years	Over 5 years
Long term rental (*)	529	56	215	258
Capital leases	148	25	83	40
Operating leases	308	65	152	91
Total at 31 March 2012	**985**	**146**	**450**	**389**
Long term rental (*)	556	57	202	297
Capital leases	160	27	84	49
Operating leases	375	152	129	94
Total at 31 March 2011	**1,091**	**236**	**415**	**440**

(*) Obligations related to lease of trains and associated equipments (see Note 24) including interests to be paid.

Note 30. Independent Auditors' fees

Fees due to auditors and members of their networks in respect of years ended 31 March 2012 and 31 March 2011 were as follows:

(in € million)	**Year ended 31 March 2012**				**Year ended 31 March 2011**			
	Mazars		PricewaterhouseCoopers		Mazars		PricewaterhouseCoopers	
	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
Independent Auditors' diligence, certification, review of individual and consolidated accounts	7.0	93%	11.4	79%	7.2	95%	12.1	93%
. Alstom SA	*0.8*	*11%*	*1.5*	*10%*	*0.7*	*9%*	*1.6*	*12%*
. Controlled entities	*6.2*	*83%*	*9.9*	*69%*	*6.5*	*86%*	*10.6*	*81%*
Other audit diligence and audit related services	0.4	5%	2.8 (*)	19%	0.3	4%	0.6	5%
. Alstom SA	*0.1*	*1%*	*-*	*0%*	*-*	*0%*	*0.1*	*1%*
. Controlled entities	*0.3*	*4%*	*2.8*	*19%*	*0.3*	*4%*	*0.5*	*4%*
Sub-total	**7.4**	**99%**	**14.2**	**98%**	**7.5**	**99%**	**12.7**	**98%**
Other services								
Legal, tax and social	0.1	1%	0.3	2%	0.1	1%	0.3	2%
Other	-	-	-	-	-	-	-	-
Sub-total	**0.1**	**1%**	**0.3**	**2%**	**0.1**	**1%**	**0.3**	**2%**
Total	**7.5**	**100**	**14.5**	**100**	**7.6**	**100**	**13.0**	**100**

(*) of which M€ 2,2 relating to due diligence services rendered in connection with business combinations and directly linked to the statutory auditor engagement. These services were pre-approved by the Audit Comittee and are compliant with French independance rules and Alstom's requirements.

Note 31. Related parties

The Group has identified the following related parties:

- Shareholders of the Group
- Associates & joint ventures
- Key management personnel

31.1 Shareholders of the Group

Bouygues, a French company listed on Paris stock market, is the main shareholder holding more than 5% of the parent company's share. At 31 March 2012, Bouygues holds a 30.7% stake in Alstom share capital.

31.2 Related-party disclosures

	Year ended 31 March 2012		At 31 March 2012	
(in € million)	**Income**	**Expenses**	**Receivables**	**Liabilities**
Bouygues's Group (*)	5	1	2	2
Joint ventures	49	-	20	-
Associates	1	-	2	-

(*) These figures are related to the profit and loss from 1st January 2011 to 31st December 2011 and the balance sheet at 31 December 2011.

31.3 Key management personnel

The Group considers that key management personnel as defined by IAS 24 are the members of the Executive Committee at 31 March 2012.

(in € thousand)	Year ended 31 March 2012	Year ended 31 March 2011
Short-term benefits	**8,254**	**6,846**
Fixed gross salaries	4,581	3,946
Variable gross salaries	3,673	2,900
Post-employment benefits	**3,367**	**1,334**
Post-employment defined benefit plans	3,171	1,204
Post-employment defined contribution plans	196	130
Other post-employment benefits	-	-
Other benefits	**795**	**1,585**
Non monetary benefits	54	25
Share-based payments (*)	741	1,560
Total	**12,416**	**9,765**

(*) Expense recorded in the income statement in respect of stock option plans and free shares.

Note 32. Subsequent events

The Group has not identified any subsequent event to be reported.

Note 33. Major companies included in the scope of consolidation

The major companies of the Group are listed below and selected according to one of the following criteria: significant holding companies or sales above €100 million for the year ended 31 March 2012. The list of all consolidated companies is available upon request at the head office of the Group.

Companies	Country	Ownership %	Consolidation Method
Parent company			
ALSTOM	France	-	Parent company
Holding companies			
ALSTOM Holdings	France	100%	Full consolidation
ALSTOM Power Holdings SA	France	100%	Full consolidation
ALSTOM Deutschland AG	Germany	100%	Full consolidation
ALSTOM Spa	Italy	100%	Full consolidation
ALSTOM NV	Netherlands	100%	Full consolidation
The Breakers Investments B.V. (Transmashholding)	Netherlands	25%	Equity method
ALSTOM Espana IB SA Holding	Spain	100%	Full consolidation
ALSTOM (Switzerland) Ltd	Switzerland	100%	Full consolidation
ALSTOM UK Holdings Ltd	United Kingdom	100%	Full consolidation
ALSTOM Inc	United States	100%	Full consolidation
Industrial companies			
ALSTOM Algérie Spa	Algeria	100%	Full consolidation
ALSTOM Limited (Australia)	Australia	100%	Full consolidation
ALSTOM Grid Australia Ltd	Australia	100%	Full consolidation
ALSTOM Belgium SA	Belgium	100%	Full consolidation
ALSTOM Brasil Energia e Transporte Ltda	Brazil	100%	Full consolidation
ALSTOM Grid Energia Ltda	Brazil	100%	Full consolidation
ALSTOM Power & Transport Canada Inc.	Canada	100%	Full consolidation
ALSTOM Grid Canada, Inc	Canada	100%	Full consolidation
Tianjin ALSTOM Hydro Co. Ltd	China	99%	Full consolidation
ALSTOM Suzhou High Voltage Switchgear Co., Ltd	China	80%	Full consolidation
ALSTOM Hydro France	France	100%	Full consolidation
ALSTOM Grid SAS	France	100%	Full consolidation
ALSTOM Power Service	France	100%	Full consolidation
ALSTOM Power Systems SA	France	100%	Full consolidation
ALSTOM Transport SA	France	100%	Full consolidation
ALSTOM Boiler Deutschland GmbH	Germany	100%	Full consolidation
ALSTOM Grid GmbH	Germany	100%	Full consolidation
ALSTOM Power Service GmbH	Germany	100%	Full consolidation
ALSTOM Power Systems GmbH	Germany	100%	Full consolidation
ALSTOM Transport Deutschland GmbH	Germany	100%	Full consolidation
ALSTOM Projects India Ltd	India	68%	Full consolidation
ALSTOM T&D India Limited	India	72%	Full consolidation
ALSTOM Ferrovaria S.p.A	Italy	100%	Full consolidation
ALSTOM K.K.	Japan	100%	Full consolidation
Cerrey - Babcock & Wilcox	Mexico	25%	Equity method
ALSTOM Mexicana S.A. de C.V.	Mexico	100%	Full consolidation
ALSTOM Power Sp.z o.o.	Poland	100%	Full consolidation
ALSTOM Power Singapore Pte Ltd	Singapore	100%	Full consolidation
ALSTOM S&E Africa (Pty) Ltd	South Africa	100%	Full consolidation
ALSTOM Hydro Spain S.L.	Spain	100%	Full consolidation
ALSTOM Transporte SA	Spain	100%	Full consolidation
ALSTOM Power Sweden AB	Sweden	100%	Full consolidation
ALSTOM (Switzerland) Ltd	Switzerland	100%	Full consolidation
AP O&M Ltd.	Switzerland	100%	Full consolidation
ALSTOM Grid Enerji Endustrisi A.S	Turkey	100%	Full consolidation
ALSTOM Ltd	United Kingdom	100%	Full consolidation
ALSTOM Grid UK LTD	United Kingdom	100%	Full consolidation
ALSTOM Grid Inc.	United States	100%	Full consolidation
ALSTOM Power Inc.	United States	100%	Full consolidation
AP Com Power Inc.	United States	100%	Full consolidation

Consolidated financial statements

Year ended 31 March 2013

CONSOLIDATED INCOME STATEMENT

(in € million)	Note	Year ended 31 March 2013	Year ended 31 March 2012
Sales	(4)	**20,269**	**19,934**
Cost of sales		(16,324)	(16,144)
Research and development expenses	(5)	(737)	(682)
Selling expenses		(952)	(900)
Administrative expenses		(793)	(802)
Income from operations	(4)	**1,463**	**1,406**
Other income	(6)	6	3
Other expense	(6)	(282)	(337)
Earnings before interest and taxes	(4)	**1,187**	**1,072**
Financial income	(7)	36	55
Financial expense	(7)	(259)	(232)
Pre-tax income		**964**	**895**
Income tax charge	(8)	(193)	(179)
Share in net income of equity investments	(12)	47	28
Net profit		**818**	**744**
Attributable to:			
- Equity holders of the parent		802	732
- Non controlling interests		16	12
Earnings per share (in €)	(9)		
- Basic earnings per share		2.66	2.49
- Diluted earnings per share		2.64	2.46

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € million)		Year ended 31 March 2013	Year ended 31 March 2012
Net profit recognised in income statement		**818**	**744**
Actuarial gains and losses on post-employment benefits	(23)	(295)	(317)
Income tax relating to items that will not be reclassified to profit or loss	(8)	55	31
Items that will not be reclassified to profit or loss		**(240)**	**(286)**
Fair value ajustments on available-for-sale assets		(1)	(13)
Fair value ajustments on cash flow hedge derivatives		15	(29)
Currency translation adjustments		36	60
Income tax relating to items that may be reclassified to profit or loss	(8)	(2)	4
Items that may be reclassified to profit or loss		**48**	**22**
Other comprehensive income		**(192)**	**(264)**
Total comprehensive income for the period		**626**	**480**
Attributable to:			
- Equity holders of the parent		611	473
- Non controlling interests		15	7

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(in € million)	Note	At 31 March 2013	At 31 March 2012
ASSETS			
Goodwill	(10)	5,536	5,483
Intangible assets	(10)	1,982	1,921
Property, plant and equipment	(11)	3,024	2,852
Associates and non consolidated investments	(12)	698	531
Other non-current assets	(13)	515	545
Deferred taxes	(8)	1,711	1,472
Total non-current assets		**13,466**	**12,804**
Inventories	(14)	3,144	3,138
Construction contracts in progress, assets	(15)	4,158	3,752
Trade receivables	(16)	5,285	5,692
Other current operating assets	(17)	3,328	3,557
Marketable securities and other current financial assets	(18)	36	13
Cash and cash equivalents	(25)	2,195	2,091
Total current assets		**18,146**	**18,243**
Total assets		**31,612**	**31,047**

(in € million)	Note	At 31 March 2013	At 31 March 2012
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent	(20)	5,011	4,327
Non controlling interests		93	107
Total equity		**5,104**	**4,434**
Non-current provisions	(22)	680	804
Accrued pension and other employee benefits	(23)	1,642	1,417
Non-current borrowings	(24)	4,197	3,863
Non-current obligations under finance leases	(24)	433	477
Deferred taxes	(8)	284	176
Total non-current liabilities		**7,236**	**6,737**
Current provisions	(22)	1,309	1,414
Current borrowings	(24)	283	634
Current obligations under finance leases	(24)	42	48
Construction contracts in progress, liabilities	(15)	9,909	9,508
Trade payables		4,041	4,080
Other current operating liabilities	(26)	3,688	4,192
Total current liabilities		**19,272**	**19,876**
Total equity and liabilities		**31,612**	**31,047**

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in € million)	Note	Year ended 31 March 2013	31 March 2012
Net profit		**818**	**744**
Depreciation, amortisation and expense arising from share-based payments		543	621
Post-employment and other long-term defined employee benefits		(65)	(61)
Net (gains)/losses on disposals of assets		34	1
Share in net income of associates (net of dividends received)		(18)	(27)
Deferred taxes charged to income statement		(73)	(94)
Net cash provided by operating activities - before changes in working capital		**1,239**	**1,184**
Changes in working capital resulting from operating activities	**(19)**	**(150)**	**(968)**
Net cash provided by /(used in) operating activities		**1,089**	**216**
Proceeds from disposals of tangible and intangible assets		57	24
Capital expenditure (including capitalised R&D costs)	(4)	(738)	(813)
Increase/(decrease) in other non-current assets		37	15
Acquisitions of businesses, net of cash acquired		(472)	(65)
Disposals of businesses, net of net cash sold		(2)	(73)
Net cash provided by/(used in) investing activities		**(1,118)**	**(912)**
Capital increase/(decrease) including non controlling interests		351	(1)
Dividends paid including payments to non controlling interests		(243)	(206)
Changes in ownership interests with no gain/loss of control		(48)	-
Issuance of bonds & notes	(24)	350	560
Changes in current and non-current borrowings		(174)	13
Changes in obligations under finance leases		(45)	(42)
Changes in marketable securities and other current financial assets and liabilities		(11)	(237)
Net cash provided by/ (used in) financing activities		**180**	**87**
Net increase/(decrease) in cash and cash equivalents		**151**	**(609)**
Cash and cash equivalents at the beginning of the period		2,091	2,701
Net effect of exchange rate variations		(49)	-
Other changes		2	(1)
Cash and cash equivalents at the end of the period		**2,195**	**2,091**
Income tax paid		*(240)*	*(264)*
Net of interests paid & received		*(186)*	*(170)*

(in € million)	Year ended 31 March 2013	31 March 2012
Net cash/(debt) variation analysis (*)		
Changes in cash and cash equivalents	151	(609)
Changes in marketable securities and other current financial assets & liabilities	11	237
Changes in bonds and notes	(350)	(560)
Changes in current and non-current borrowings	174	(13)
Changes in obligations under finance leases	45	42
Net debt of acquired entities at acquisition date and other variations	119	(303)
Decrease/ (increase) in net debt	*150*	*(1,206)*
Net cash/(debt) at the beginning of the period	**(2,492)**	**(1,286)**
Net cash/(debt) at the end of the period	**(2,342)**	**(2,492)**

(*) The net cash/(debt) is defined as cash and cash equivalents, marketable securities and other current financial assets and non-current financial assets directly associated to liabilities included in financial debt (see Note 13), less financial debt (see Note 24).

The accompanying notes are an integral part of the consolidated financial statements.

ALSTOM

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in € million, except for number of shares)	**Number of outstanding shares**	**Capital**	**Additional paid-in capital**	**Retained earnings**	**Other comprehensive income**	**Equity attributable to the equity holders of the parent**	**Non controlling interests**	**Total equity**
At 31 March 2011	**294,419,304**	**2,061**	**624**	**2,699**	**(1,324)**	**4,060**	**92**	**4,152**
Movements in other comprehensive income	-	-	-	-	(259)	**(259)**	(5)	**(264)**
Net income for the period	-	-	-	732	-	**732**	12	**744**
Total comprehensive income	-	-	-	732	(259)	**473**	7	**480**
Change in scope and other	3,799	-	-	(32)	-	**(32)**	21	**(11)**
Dividends paid	-	-	-	(183)	-	**(183)**	(13)	**(196)**
Capital reduction	(200,000)	(1)	(4)	-	-	**(5)**	-	**(5)**
Issue of ordinary shares under long term incentive plans	310,577	2	2	(1)	-	**3**	-	**3**
Recognition of equity settled share-based payments	-	-	-	11	-	**11**	-	**11**
At 31 March 2012	**294,533,680**	**2,062**	**622**	**3,226**	**(1,583)**	**4,327**	**107**	**4,434**
Movements in other comprehensive income	-	-	-	-	(191)	**(191)**	(1)	**(192)**
Net income for the period	-	-	-	802	-	**802**	16	**818**
Total comprehensive income	-	-	-	802	(191)	**611**	15	**626**
Change in scope and other	8	-	-	(54)	-	**(54)**	(19)	**(73)**
Dividends paid	-	-	-	(236)	-	**(236)**	(10)	**(246)**
Capital increase	13,133,208	92	251			**343**		**343**
Issue of ordinary shares under long term incentive plans	491,230	3	2	-	-	**5**	-	**5**
Recognition of equity settled share-based payments	-	-	-	15	-	**15**	-	**15**
At 31 March 2013	**308,158,126**	**2,157**	**875**	**3,753**	**(1,774)**	**5,011**	**93**	**5,104**

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Presentation of the Group

Alstom ("the Group") serves the power generation and transmission markets through its Thermal Power, Renewable Power and Grid Sectors, and the rail transport market through its Transport Sector. The Group designs, supplies, and services a complete range of technologically-advanced products and systems for its customers, and possesses a unique expertise in systems integration and through life maintenance and services.

The operational activities of the Group are organised in four Sectors:

- **Thermal Power**

Thermal Power offers a comprehensive range of power generation solutions using gas or coal from integrated power plants and all types of turbines, generators, boilers, emission control systems to a full range of services including plant modernisation, maintenance and operational support. The Sector also supplies conventional islands for nuclear power plants.

- **Renewable Power**

Renewable Power offers EPC solutions, turbines and generators, control equipment and maintenance for Hydro power and Wind power activities. The Sector includes geothermal and solar thermal businesses.

- **Grid**

The Grid Sector designs and manufactures equipment and engineered turnkey solutions to manage power grids and transmit electricity from the power plant to the large end-user, be it a distribution utility or an industrial process or production facility.

- **Transport**

The Transport Sector serves the urban transit, regional/intercity passenger travel markets and freight markets all over the world with rail transport products, systems and services.

The consolidated financial statements are presented in euro and have been authorised for issue by the Board of Directors held on 6 May 2013. In accordance with French legislation, they will be final once approved by the shareholders of Alstom at the Annual General Meeting convened for 2 July 2013.

Note 2. Accounting policies

2.1 Basis of preparation of the consolidated financial statements

Alstom consolidated financial statements for the year ended 31 March 2013 have been prepared:

- in accordance with the International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) and endorsed by the European Union and whose application was mandatory as of 1 April 2012;
- using the same accounting policies and measurement methods as at 31 March 2012, with the exceptions of changes required by the enforcement of new standards and interpretations as described below.

The information relating to consolidated financial statements for the fiscal year ended 31 March 2011, presented in the 2011/12 registration document D.12-0548 filed with the AMF on 25 May 2012 is included by reference.

The full set of standards endorsed by the European Union can be consulted on the website of the European Commission at:

http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

2.1.1. Changes in accounting policies due to new, revised or amended standards and interpretations mandatorily applicable for financial periods beginning on 1 April 2012

The Group's consolidated financial statements are not significantly affected by the enforcement of the new, revised, or amended standards and interpretations becoming effective in the European Union starting from 1 April 2012:

- Amendments to IFRS 7, Disclosures - Transfers of financial assets: the amendments introduce new disclosure requirements about transfers of financial assets such as transactions involving securitisation of financial assets or factoring of trade receivables.

2.1.2. New standards and interpretations not yet mandatorily applicable

2.1.2.1 New standards and interpretations endorsed by the European Union not yet mandatorily applicable

- **Amendment to IAS 1, Presentation of items of other comprehensive income**

Since 1 April 2011, the Group applies the amendment to IAS 1, Presentation of items of other comprehensive income by anticipation. This amendment requests the distinction between comprehensive income elements that will be reclassified in profit or loss and elements that will not. This amendment does not have a material impact on the presentation of the Group's published consolidated statement of comprehensive income.

- **Amendment to IAS 19, Employee benefits**

The Group has not opted for an early application of the amendment to IAS 19, Employee benefits, which effective date is 1 April 2013 for Alstom.
This amendment eliminates the option of applying the corridor approach for post-employment benefits, as a result, all actuarial gains and losses will be recognized immediately in liabilities and will be recorded for each period systematically in "other comprehensive income". Furthermore, past service costs will be also recognized immediately in liabilities but will be recorded in the income statement. The amendment also specifies the calculation of the expected return on plan assets on the basis of the discount rate used to value the defined benefit obligation rather than on the basis of market expectations for returns.

The Group does not apply the corridor approach and already records all actuarial gains and losses in other comprehensive income. The retrospective application of this amendment will have an impact in equity estimated to (25) million euros in order to take into account any change of plans.

The calculation of the expected return on plan assets on the basis of the discount rate used to value the underlying obligation will increase the net financial expense. The Group is currently considering the impact of applying this amendment which is estimated to around (40) million euros on financial expenses and (30) million euros on net profit for the year 2012/13.

- **Standards on consolidation (IFRS 10, Consolidated Financial statements; IFRS 11, Joint arrangements; IFRS 12, Disclosure of interests in other entities; IAS 28 revised, Investments in associates and joint ventures)**

The Group has not opted for an early application of the consolidation standards (IFRS 10, IFRS 11, IFRS 12 and IAS 28 revised) endorsed by the European Union and which effective date is 1 April 2014 for Alstom.

The Group is carrying on the assessment of the impact of applying these new standards for the first time, in particular IFRS 10, Consolidated financial statements and IFRS 11, Joint arrangements.

- **IFRS 10, Consolidated financial statements**

This standard defines control as being exercised when an investor is exposed, or has rights, to variable returns from his involvement with the investee and has the ability to affect those returns through his power over the investee. The impact of applying this new standard on the consolidated financial statements is not expected to be significant.

- **IFRS 11, Joint arrangements**

The new standard mainly prescribes two different accounting treatments:

- Joint arrangements qualifying as joint operations will be recognised based on the proportion of assets, liabilities, revenue and expenses controlled by the Group. A joint operation may be conducted under a separate vehicle or not.
- Joint arrangements that are qualified as joint ventures will be accounted for using the equity method, because the parties have rights to the net assets of the arrangement.

The Group is currently analysing its jointly controlled entities in light of IFRS 11, Joint arrangements so as to determine if they shall be classified as joint operations or joint ventures.
Entities over which the Group exercises joint control consolidated until now according to the proportionate consolidation method and which should be classified as joint ventures according to the new rules should mainly concern Transport sector.

The Group is assessing the impact of applying this new standard. However, as the contribution of the jointly controlled entities to the Group's main financial indicators is currently not material, the impact on the consolidated financial statements is not expected to be significant.

- **IFRS 13, Fair value**

The Group has not opted for an early application of IFRS 13, Fair value which effective date is 1 April 2013 for Alstom.
IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy' which results in a market based, rather than entity specific, measurement.
The impact of applying this new standard on the consolidated statement is not expected to be significant.

- **Amendments to IAS 32 and IFRS 7, Offsetting financial assets and financial liabilities**

The Group has not opted for an early application of these amendments endorsed by the European Union and which effective date is 1 April 2014 for Alstom.
These amendments provide clarification on the application of the offsetting rules and on the relative disclosures.

- **Improvements to IFRS s 2009-2011**

2.1.2.2 New standards and interpretations not yet approved by the European Union and not yet mandatorily applicable

- Financial instruments:
  - classification and measurement of financial assets (IFRS 9)
  - Mandatory effective date and transition guidance (amendments to IFRS 9 and IFRS 7)
- Transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12)
- Investments entities (amendments to IFRS 10, IFRS 12 and IAS 27)

The Group is currently considering the impact of applying these new standards for the first time.

2.2. Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make various estimates and to use assumptions regarded as realistic and reasonable. These estimates or assumptions could affect the value of the Group's assets, liabilities, equity, net income and contingent assets and liabilities at the closing date. Management reviews estimates on an on-going basis using information currently available. Actual results may differ from those estimates, due to changes in facts and circumstances.

The accounting policies most affected by the use of estimates are the following:

- **Revenue and margin recognition on construction and long-term service contracts and related provisions**

The Group recognises revenue and gross margin on construction and long-term service contracts using the percentage of completion method based on milestones; in addition, when a project review indicates a negative gross margin, the estimated loss at completion is immediately recognised.

Recognised revenue and margin are based on estimates of total expected contract revenue and cost, which are subject to revisions as the contract progresses. Total expected revenue and cost on a contract reflect management's current best estimate of the probable future benefits and obligations associated with the contract. Assumptions to calculate present and future obligations take into account current technology as well as the commercial and contractual positions,

assessed on a contract-by-contract basis. The introduction of technologically-advanced products exposes the Group to risks of product failure significantly beyond the terms of standard contractual warranties applicable to suppliers of equipment only.

Obligations on contracts may result in penalties due to late completion of contractual milestones, or unanticipated costs due to project modifications, suppliers or subcontractors' failure to perform or delays caused by unexpected conditions or events. Warranty obligations are affected by product failure rates, material usage and service delivery costs incurred in correcting failures.

Although the Group makes individual assessments on contracts on a regular basis, there is a risk that actual costs related to those obligations may exceed initial estimates. Estimates of contract costs and revenues at completion in case of contracts in progress and estimates of provisions in case of completed contracts may then have to be re-assessed.

- **Estimate of provisions relating to litigations**

The Group identifies and analyses on a regular basis current litigations and measures, when necessary, provisions on the basis of its best estimate of the expenditure required to settle the obligation at the balance sheet date. These estimates take into account information available and different possible outcomes.

- **Valuation of deferred tax assets**

Management judgment is required to determine the extent to which deferred tax assets can be recognised. Future sources of taxable income and the effects of the Group global income tax strategies are taken into account in making this determination. This assessment is conducted through a detailed review of deferred tax assets by jurisdiction and takes into account past, current and future performance deriving from the existing contracts in the order book, the budget and the three-year plan, and the length of carry back, carry forwards and expiry periods of net operating losses.

- **Measurement of post-employment and other long-term defined employee benefits**

The measurement of obligations and assets related to defined benefit plans makes it necessary to use several statistical and other factors that attempt to anticipate future events. These factors include assumptions about the discount rate, the expected return on plan assets, the rate of future compensation increases as well as withdrawal and mortality rates. If actuarial assumptions materially differ from actual results, it could result in a significant change in the employee benefit expense recognised in the income statement, actuarial gains and losses recognised in other comprehensive income and prepaid and accrued benefits.

- **Valuation of assets**

The discounted cash flow model used to determine the recoverable value of the groups of cash generating units to which goodwill is allocated includes a number of inputs including estimates of future cash flows, discount rates and other variables, and then requires significant judgment.

Impairment tests performed on intangible and tangible assets are also based on assumptions. Future adverse changes in market conditions or poor operating results from underlying assets could result in an inability to recover their current carrying value.

- **Inventories**

Inventories, including work in progress, are measured at the lower of cost and net realisable value. Write-down of inventories are calculated based on an analysis of foreseeable changes in demand, technology or market conditions in order to determine obsolete or excess inventories. If actual market conditions are less favourable than those projected, additional inventory write-downs may be required.

2.3. Significant accounting policies

2.3.1. Consolidation methods

Subsidiaries

Entities over which the Group exercises exclusive control are fully consolidated. Exclusive control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities, whether it holds shares or not.

Inter-company balances and transactions are eliminated.

Results of operations of subsidiaries acquired or disposed of during the year are recognised in the consolidated income statement as from the date of acquisition or up to the date of disposal, respectively.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the equity attributable to the equity holders of the parent. Non-controlling interests consist of the amount of those interests at the date of the original business combination and their share of changes in equity since the date of the combination. In the absence of explicit agreements to the contrary, subsidiaries' losses are systematically allocated between equity holders of the parent and non-controlling interests based on their respective ownership interests even if this results in the non-controlling interests having a deficit balance.

Interests in joint ventures

Entities over which the Group exercises joint control are consolidated according to the proportionate consolidation method whereby the Group's share of the joint ventures' results, assets and liabilities is recorded in the consolidated financial statements. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in associates

Entities in which the Group exercises significant influence but not control, are accounted for under the equity method. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost, including any goodwill arising and transaction costs. Earn-outs are initially recorded at fair value and adjustments recorded through cost of investment when their payments are probable and can be measured with sufficient reliability.

The Group's share of its associates' profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The impairment expense of investments in associates is recorded in the line "Share in net income of equity investments" of the income statement. Losses of an associate in excess of the Group's interest in that associate are not recognised, except if the Group has a legal or implicit obligation. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

In case of associates purchased by stage, the Group uses the cost method to account for changes from available for sales (AFS) category to associates.

2.3.2 Translation of financial statements denominated in currencies other than euro

Functional currency is the currency of the primary economic environment in which a reporting entity operates, which in most cases, corresponds to the local currency. However, some reporting entities may have a functional currency different from local currency when that other currency is used for the entity's main transactions and faithfully reflects its economic environment.

Assets and liabilities of entities whose functional currency is other than the euro are translated into euro at closing exchange rate at the end of each reporting period while their income and cash flow statements are translated at the average exchange rate for the period. The currency translation adjustments resulting from the use of different currency rates for opening balance sheet positions, transactions of the period and closing balance sheet positions are recorded in other comprehensive income. Translation adjustments are transferred to the consolidated income statement at the time of the disposal of the related entity.

Goodwill and fair value adjustments arising from the acquisition of entities whose functional currency is not euro are designated as assets and liabilities of those entities and therefore denominated in their functional currencies and translated at the closing rate at the end of each reporting period.

2.3.3 Business combinations

Business combinations completed between 1 January 2004 and 31 March 2010 have been recognised applying the provisions of the previous version of IFRS 3.
Business combinations completed from 1 April 2010 onwards are recognised in accordance with IFRS 3 Revised.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the sum of fair values of the assets transferred and the liabilities incurred by the acquirer at the acquisition date and the equity-interest issued by the acquirer. The consideration transferred includes contingent consideration, measured and recognized at fair value, at the acquisition date.

For each business combination, any non-controlling interest in the acquiree may be measured either at the acquisition-date fair value, leading to the recognition of the non-controlling interest's share of goodwill (full goodwill method) or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, resulting in recognition of only the share of goodwill attributable to equity holders of the parent (partial goodwill method).

Acquisition-related costs are recorded as an expense as incurred.

Goodwill arising from a business combination is measured as the difference between:

- the fair value of the consideration transferred for an acquiree plus the amount of any non-controlling interests of the acquiree; and
- the net fair value of the identifiable assets acquired and liabilities assumed at the acquisition date.

Initial estimates of consideration transferred and fair values of assets acquired and liabilities assumed are finalised within twelve months after the date of acquisition and any adjustments are accounted for as retroactive adjustments to goodwill. Beyond this twelve-month period, any adjustment is directly recognised in the income statement.

Earn-outs are initially recorded at fair value and adjustments made beyond the 12-month measurement period following the acquisition are systematically recognised through profit or loss.

Goodwill is not amortised but tested for impairment annually at closing date or more frequently if events or changes in circumstances indicate a potential impairment.

In case of a step-acquisition that leads to the Group acquiring control of the acquiree, the equity interest previously held by the Group is remeasured at its acquisition-date fair value and any resulting gain or loss is recognised in profit or loss.

2.3.4. Segment information

Operating segments used to present segment information are identified on the basis of internal reports used by the Chief Executive Officer (CEO) to allocate resources to the segments and assess their performance. There is no segment aggregation.
The Chief Executive Officer is the Group's "chief operating decisions maker" within the meaning of IFRS 8.
The methods used to measure the key performance indicators of the segments for internal reporting purposes are the same as those used to prepare the consolidated financial statements.

2.3.5. Sales and costs generated by operating activities

Measurement of sales and costs

The amount of revenue arising from a transaction is usually determined by the contractual agreement with the customer. In the case of construction contracts, claims are considered in the determination of contract revenue only when it is highly probable that the claim will result in additional revenue and the amount can be reliably estimated.

Penalties are taken into account in reduction of contract revenue as soon as they are probable.

Production costs include direct costs (such as material, labour and warranty costs) and indirect costs. On the basis of funding required for the execution of contracts, borrowing costs may be attributed to construction contracts whose execution period exceeds one year. Warranty costs are estimated on the basis of contractual agreement, available statistical data and weighting of all possible outcomes against their associated probabilities. Warranty periods may extend up to five years. Selling and administrative expenses are excluded from production costs.

Recognition of sales and costs

Revenue on sale of manufactured products is recognised according IAS 18, i.e. essentially when the significant risks and rewards of ownership are transferred to the customer, which generally occurs on delivery. Revenue on short-term service contracts is recognised on performance of the related service. All production costs incurred or to be incurred in respect of the sale are charged to cost of sales at the date of recognition of sales.

Revenue on construction contracts and long-term service agreements is recognised based on the percentage of completion method: the stage of completion is assessed by milestones which ascertain the completion of a physical proportion of the contract work or the performance of services provided for in the agreement. The revenue for the period is the excess of revenue measured according to the percentage of completion over the revenue recognised in prior periods.

Cost of sales on construction contracts and long-term service agreements is computed on the same basis. The cost of sales for the period is the excess of cost measured according to the percentage of completion over the cost of sales recognised in prior periods. As a consequence, adjustments to contract estimates resulting from work conditions and performance are recognised in cost of sales as soon as they occur, prorated to the stage of completion.

When the outcome of a contract cannot be estimated reliably but the contract overall is expected to be profitable, revenue is still recognised based on milestones, but margin at completion is adjusted to nil.

When it is probable that contract costs at completion will exceed total contract revenue, the expected loss at completion is recognised immediately as an expense.
Bid costs are directly recorded as expenses when a contract is not secured.

With respect to construction contracts and long-term service agreements, the aggregate amount of costs incurred to date *plus* recognised margin *less* progress billings is determined on a contract-by-contract basis. If the amount is positive, it is included as an asset designated as "Construction contracts in progress, assets". If the amount is negative, it is included as a liability designated as "Construction contracts in progress, liabilities".
The caption "Construction contracts in progress, liabilities" also includes down payments received from customers.

Recognition of overhead expenses
Research expenditure is expensed as incurred. Development costs are expensed as incurred unless the project they relate to meets the criteria for capitalisation (see Note 2.3.10). Selling and administrative expenses are expensed as incurred.

2.3.6. Income from operations

Income from operations is the indicator used by the Group to present the level of operational performance that can be used as part of an approach to forecast recurring performance. This complies with the recommendation 2009-R03 of the ANC, the French standard setter, on the format of financial statements of entities applying IFRS.
Income from operations includes gross margin, research and development expenditure, selling and administrative expenses. It includes in particular the service cost of employee defined benefits, the cost of share-based payments and employee profit sharing, foreign exchange gains or losses associated with operating transactions and capital gains (losses) on disposal of intangible and tangible assets arising from ordinary activities.

2.3.7. Other income and other expense

Other income and other expense are representative of items which are inherently difficult to predict due to their unusual, irregular or non-recurring nature.

Other income may include capital gains on disposal of investments or activities and capital gains on disposal of tangible and intangible assets arising from activities disposed of or facing restructuring plans as well as any income associated to past disposals.

Other expense include capital losses on disposal of investments or activities and capital losses on disposal of tangible and intangible assets arising from activities disposed of or facing restructuring plans as well as any costs associated to past disposals, restructuring costs, costs incurred to effect business combinations and amortisation expense of assets exclusively acquired in the context of business combinations (margin in backlog, customer relationship, margin on inventory), significant impairment losses on assets, litigation costs that have arisen outside the ordinary course of business and a portion of post-employment and other long-term defined benefit expense (amortisation of unrecognised prior service cost, impacts of curtailments and settlements and amortisation of actuarial gains and losses referring to long-term benefits other than post-employment benefits).

2.3.8. Financial income and expense

Financial income and expense include:
- Interest income representing the remuneration of the cash position,
- Interest expense related to the financial debt (financial debt consists of bonds, the debt component of compound instruments, other borrowings and lease-financing liabilities);
- Other expenses paid to financial institutions for financing operations;
- The financial component of the cost of employee defined benefits (interest cost and expected return on assets);
- Foreign exchange gains and losses associated to financing transactions;
- Other income or expense from cash and cash equivalents and marketable securities.

2.3.9. Foreign currency transactions

Foreign currency transactions are initially recognised by applying to the foreign currency amount the spot exchange rate between the functional currency of the reporting unit and the foreign currency at the date of the transaction. Currency units held, assets to be received and liabilities to be paid resulting from those transactions are re-measured at closing exchange rates at the end of each reporting period. Realised exchange gains or losses at date of payment as well as unrealised gains or losses deriving from re-measurement are recorded within income from operations when they relate to operating activities or within financial income or expense when they relate to financing activities.

Since the Group is exposed to foreign currency volatility, the Group puts in place a significant volume of hedges to cover this exposure. These derivatives are recognised on the balance sheet at their fair value at the closing date. Providing that the relationships between the foreign currency exposure and the related derivatives are qualifying relationships, the Group uses the specific accounting treatments designated as hedge accounting. A relationship qualifies for hedge

accounting if, at the inception of the hedge, it is formally designated and documented and if it proves to be highly effective throughout the financial reporting periods for which the hedge was designated.

Hedging relationships may be of two types:

- Cash flow hedge in case of hedge of the exposure to variability of cash flows attributable to highly probable forecast transactions;
- Fair value hedge in case of hedge of the exposure attributable to recognised assets, liabilities or firm commitments.

Cash flow hedge

When cash flow hedge accounting applies, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the forecast transaction results in the recognition of a financial asset or liability, the amounts previously recognised directly in other comprehensive income are recycled into the income statement. When the forecast transaction results in the recognition of a non financial asset or liability (for instance, inventories or construction contracts in progress), the gain or loss that was directly recognised in other comprehensive income is included in the carrying amount of the asset or liability.

Fair value hedge

When fair value hedge accounting applies, changes in the fair value of derivatives and changes in the fair value of hedged items are both recognised in the income statement and offset each other up to the gain or loss on the effective portion on the hedging instrument.

Whatever the type of hedge, the ineffective portion on the hedging instrument is recognised in the income statement. Realised and unrealised exchange gains and losses on hedged items and hedging instruments are recorded within income from operations when they relate to operating activities or within financial income or expense when they relate to financing activities.

As the effective portion on the hedging instrument offsets the difference between the spot rate at inception of the hedge and the effective spot rate at the outcome of the hedge, sales and costs resulting from commercial contracts are recognised at the spot rate at inception of the hedge throughout the life of the related commercial contracts, provided that the corresponding hedging relationships keep on qualifying for hedge accounting.

The Group uses export insurance policies to hedge its currency exposure on certain contracts during the open bid period. When commercial contracts are awarded, insurance instruments are settled and forward contracts are put in place and recorded according the fair value hedge accounting as described above.

2.3.10. Intangible assets

Intangible assets include acquired intangible assets (such as technology and licensing agreements) and internally generated intangible assets (mainly development costs).

Acquired intangible assets

Acquired intangible assets are initially measured at cost and amortised on a straight-line basis over their estimated useful lives. Useful lives can extend to twenty years due to the long-term nature of the underlying contracts and activities. The amortisation expense of assets acquired through ordinary transactions is recorded in cost of sales, research and development expenditure, selling expenses or administrative expenses, based on the function of the underlying assets. The amortisation expense of assets exclusively acquired in the context of a business combination (margin in backlog, customer relationship) is recognised as other expense.

Internally generated intangible assets

Development costs are capitalised if and only if the project they relate to meets the following criteria:

- The project is clearly defined and its related costs are separately identified and reliably measured,
- The technical feasibility of the project is demonstrated,
- The intention exists to complete the project and to use or sell it,
- Adequate technical and financial resources are available to complete the project,
- It is probable that the future economic benefits attributable to the project will flow to the Group.

Capitalised development costs are costs incurred directly attributable to the project (materials, services, fees…), including an appropriate portion of relevant overheads.

Capitalised development costs are amortised on a straight-line basis over the estimated useful life of the asset. The amortisation charge is reported in research and development expenses.

2.3.11. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss. When an item of property, plant and equipment is made up of components with different useful lives, the total cost is allocated between the various components. Components are then separately depreciated.

Depreciation is computed using the straight-line method over the estimated useful lives of each component. The useful lives most commonly used are the following:

	Estimated useful life in years
Buildings	7-40
Machinery and equipment	3-25
Tools, furniture, fixtures and others	1-10

Useful lives are reviewed on a regular basis and changes in estimates, when relevant, are accounted for on a prospective basis. The depreciation expense is recorded in cost of sales, selling expenses or administrative expenses, based on the function of the underlying assets.

Borrowing costs that are attributable to an asset whose construction period exceeds one year are capitalised as part of the costs of the asset until the asset is substantially ready for use or sale.

Property, plant and equipment acquired through finance lease arrangements or long-term rental arrangements that transfer substantially all the risks and rewards incidental to ownership are capitalised. They are recognised at their fair value at the inception of the lease, or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a financing obligation. Lease payments are apportioned between finance charges and repayment of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the term of the relevant lease, when shorter.

Leases that do not transfer substantially all risks and rewards incidental to ownership are classified as operating leases. Rentals payable are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised on a straight-line basis over the lease term.

2.3.12. Impairment of goodwill, tangible and intangible assets

Assets that have an indefinite useful life – mainly goodwill and intangible assets not yet ready to use - are not amortized but tested for impairment at least annually or when there are indicators that they may be impaired. Other intangible and tangible assets subject to amortization are tested for impairment only if there are indicators of impairment.

The impairment test methodology is based on a comparison between the recoverable amount of an asset and its net carrying value. If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount and the impairment loss is recognised immediately in the income statement. In the case of goodwill allocated to a group of CGUs, the impairment loss is allocated first to reduce the carrying amount of goodwill and then to the other assets on a pro-rata basis of the carrying amount of each asset.
A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. If an asset does not generate cash inflows that are largely independent of other assets or groups of assets, the recoverable amount is determined for a cash-generating unit.

For internal management purposes, goodwill acquired in a business combination is monitored at the level of the Sectors as defined in Note 1: therefore goodwill is tested for impairment at the level of the group of cash-generating units constituting each Sector.

The recoverable amount is the higher of fair value less costs to sell and value in use. The value in use is elected as representative of the recoverable value. The valuation performed is based upon the Group’s internal three-year business plan. Cash flows beyond this period are estimated using a perpetual long-term growth rate for the subsequent years. The recoverable amount is the sum of the discounted cash flows and the discounted terminal residual value. Discount rates are determined using the weighted-average cost of capital of each Sector.

Impairment losses recognised in respect of goodwill cannot be reversed. The impairment losses recognized in respect of other assets than goodwill may be reversed in a later period and recognized immediately in the income statement. The carrying amount is increased to the revised estimate of recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized in prior years.

2.3.13. Financial assets

Loans and deposits

Loans are initially measured at their fair value, plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Deposits are reported as financial assets when their initial maturity is more than three months and as cash and cash equivalents in case of demand deposits or when the initial maturity is less than three months.

If there is any indication that those assets may be impaired, they are reviewed for impairment. Any difference between the carrying value and the impaired value (net realisable value) is recorded as a financial expense. The impairment loss can be reversed if the value is recovered in the future. In that case, the reversal of the impairment loss is reported as a financial income.

Investments and debt securities

Investments in non-consolidated companies are designated as available-for-sale financial assets. They are initially measured at their fair value, plus directly attributable transaction costs and subsequently re-measured at fair value.

The fair value of listed securities is the market value at the closing date. A valuation model is used in case of unlisted securities. Changes in fair value are directly recognised in other comprehensive income until the security is disposed of or is determined to be impaired. On disposal or in case of significant or prolonged decline in the fair value, the cumulative gain or loss previously recognised in other comprehensive income is included in the profit or loss for the period. Unlike impairment losses recognised in respect of investments in a debt instrument, impairment losses recognised in respect of investments in equity instruments cannot be reversed through profit and loss.

When the fair value cannot be determined reliably, investments in non-consolidated companies are measured at cost. Any impairment loss recognised for such investment is not reversed in a subsequent period, except when disposed of.

All debt securities that the Group has the expressed intention and ability to hold to maturity are designated as held-to-maturity financial assets. They are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect amounts expected not to be recoverable. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the investment's carrying value and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses may be reversed through profit and loss in subsequent periods.

Marketable securities are securities held for trading which cannot be considered as cash and cash equivalents. They are designated as financial asset at fair value through profit or loss. Changes in fair value are reported as financial income or expense.

Derivative financial instruments

Derivative financial instruments are recognised and re-measured at fair value (see Note 2.3.9 for foreign currency hedging instruments and Note 2.3.19 for interest rate derivatives).

Receivables

Receivables are initially recognised at fair value, which in most cases approximates the nominal value. If there is any subsequent indication that those assets may be impaired, they are reviewed for impairment. Any difference between the carrying value and the impaired value (net realisable value) is recorded within income from operations. The impairment loss can be reversed if the value is recovered in the future. In that case, the reversal of the impairment loss is reported within income from operations.

2.3.14. Inventories

Raw materials and supplies, work in progress and finished products are stated at the lower of cost, using the weighted average cost method, or net realisable value. Inventory cost includes direct material and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.3.15. Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, which are subject to an insignificant risk of change in value.

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.3.16. Taxation

The group computes taxes in accordance with prevailing tax legislation in the countries where income is taxable.
The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Temporary differences arising between the carrying amount and the tax base of assets and liabilities, unused tax losses and unused tax credits are identified for each taxable entity (or each tax group when applicable). Corresponding deferred taxes are calculated at the enacted or substantively enacted tax rates that are expected to apply in the period when the asset is realised or the liability settled.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available in the future against which the deductible differences, unused tax losses and unused tax credits can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of certain taxable temporary differences between the Group's share in the net assets in subsidiaries, joint ventures and associates and their tax bases. The most common situation when such exception applies relates to undistributed profits of subsidiaries where distribution to the shareholders would trigger a tax liability: when the Group has determined that profits retained by the subsidiary will not be distributed in the foreseeable future, no deferred tax liability is recognised.

Deferred tax assets and liabilities are offset when both of the following conditions are met:
- the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

Deferred tax is charged or credited to net income, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is classified in other comprehensive income.

2.3.17. Provisions

As long as a construction contract or a long-term service agreement is in progress, obligations attributable to such a contract are taken into account in the assessment of the margin to be recognised and are therefore reported within the accounts "Construction contracts in progress, assets" or "Construction contracts in progress, liabilities".

Upon completion of the contract, such obligations are recognised as distinct liabilities when they satisfy the following criteria:

- the Group has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of economic resources will be required to settle the obligation; and
- such outflow can be reliably estimated.

These liabilities are presented as provisions when they are of uncertain timing or amount. When this uncertainty is dispelled, they are presented as trade payables or other current liabilities.

Obligations resulting from transactions other than construction contracts and long-term service agreements are directly recognised as provisions as soon as the above-mentioned criteria are met.

Where the effect of the time value of money is material, provisions are measured at their present value.

Restructuring provisions are made when plans to reduce or close facilities, or to reduce the workforce have been finalised and approved by the Group management and have been announced before the balance sheet date, resulting in an obligation of the Group to third parties. Restructuring costs include employees' severance and termination benefits and estimated facility closing costs. In addition to such provisions, restructuring costs may include asset write-off relating to the restructured activities.

2.3.18. Financial liabilities

Bonds and borrowings

Bonds and interest-bearing bank loans are initially recognised at fair value, less any transaction costs directly attributable to the issuance of the liability. These financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments

Derivative financial instruments are recognised and re-measured at fair value (see Note 2.3.9 for foreign currency hedging instruments and Note 2.3.19 for interest rate hedging instruments).

Payables

Payables are initially recognised at fair value, which in most cases approximates the nominal value. They are subsequently re-measured at amortised cost.

2.3.19. Interest rate derivatives

The Group may enter into hedges for the purpose of managing its exposure to movements in interest rates. Derivatives are recognised on the balance sheet at fair value at the closing date. Providing that the relationships between the interest rate exposure and the related derivatives are qualifying relationships, the Group uses the specific accounting treatments designated as hedge accounting. Fair value hedge accounting and cash flow hedge accounting are applied to fixed and floating rate borrowings, respectively.

In the case of fair value hedge relationships, the re-measurement of the fixed rate borrowing is offset in the income statement by the movement in the fair value of the derivative up to the effective part of hedged risk. In the case of cash flow hedge relationships, the change in fair value of the derivative is recognised directly in other comprehensive income. When the forecast transaction results in the recognition of a monetary item, the amounts previously recognised directly in other comprehensive income are reclassified to the income statement.

2.3.20. Share-based payments

The Group issues equity-settled and cash-settled share-based payments to certain employees.

Equity-settled share-based payments

Equity-settled share-based payments are measured at fair value at the grant date (excluding the effect of non-market-based conditions) using the binomial pricing model or the Black-Scholes model for plans issued from 2009. The cumulative recognised expense is based on the fair value at grant date and on the estimated number of shares that will eventually vest (including the effect of non-market-based vesting conditions). It is recorded in income from operations throughout the vesting period with a counterpart in equity.

At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Cash-settled share-based payments

For cash-settled share-based payments, a liability equal to the portion of the goods or services rendered is recognised at the current fair value. The fair value is remeasured at each balance-sheet date and at the date of settlement, with any changes recognised in the income statement.

The Group may also provide employees with the ability to purchase the Group's ordinary shares at a discounted price compared to that of the current market value. In that case, the Group records an expense based on the discount given and its estimate of the shares expected to vest.

2.3.21. Post-employment and other long-term defined employee benefits

The Group provides its employees with various types of post-employment benefits, such as pensions, retirement bonuses and medical care, and other long-term benefits, such as jubilee awards and deferred compensation schemes. The type of benefits offered to individual employees is related to local legal requirements as well as practices of the specific subsidiaries.

The Group's health care plans are generally contributory with participants' contributions adjusted annually.

Post-employment defined benefit plans

For single employer defined benefit plans, the Group uses the Projected Unit Credit Method to determine the present value of its obligations and the related current and past service costs/profits. This method considers the actuarial assumptions' best estimates (for example, the expected turnover, the expected future salary increase and the expected mortality).

Most defined benefit pension liabilities are funded through pension funds legally distinct from the entities constituting the Group. Plan assets related to funded plans are invested mainly in equity and debt securities. Other supplemental pension plans sponsored by the Group for certain employees are directly paid by the employer as they become due. Post-employment medical benefit plans are predominantly unfunded.

The Group periodically reviews plan assets and obligations. The effects of any change in actuarial assumptions together with the differences between forecast and actual experience are assessed. The Group recognises in other comprehensive income the full amount of any actuarial gains and losses as well as the effect of any asset ceiling.

The estimated cost of providing defined benefits to employees is accrued during the years in which the employees render services. In the income statement, the service cost is included in the income from operations. The amortisation of unrecognised prior service cost/profit and specific events impacts (e.g. curtailments) are recognised in other expense. Interest cost and expected return on assets are included in financial income (expenses).

The Group also participates in multi-employer defined benefit plans, mainly in the United States and Canada. As corresponding funds are not able to provide sufficient information to use defined benefit accounting, these plans are accounted for as defined contribution plans (see below).

Post-employment defined contribution plans

For defined contribution plans, the Group pays contributions to independently administered funds at a fixed percentage of employees' pay. These contributions are recorded as operating expenses.

Other long-term employee benefits

The accounting method used when recognising obligations arising from other long-term employee benefits is similar to the method used for post-employment defined benefits, except that prior service cost and actuarial gains/losses are immediately recognised in full in "other income/expense" in the income statement.

2.3.22. Off balance sheet commitments

Commitments arising from execution of operations controlled by the Group

In the ordinary course of business, the Group is committed to fulfil various types of obligations arising from customer contracts (among which full performance and warranty obligations). Obligations may also arise from leases and regulations in respect of tax, custom duties, environment, health and safety. These obligations may or may not be guaranteed by bonds issued by banks or insurance companies.

As the Group is in a position to control the execution of these obligations, a liability only arises if an obligating event (such as a dispute or a late completion) has occurred and makes it likely that an outflow of resources will occur.

When the liability is considered as only possible but not probable or, when probable, cannot be reliably measured, it is disclosed as a contingent liability.

When the liability is considered as probable and can be reliably measured, the impact on the financial statements is the following:

- if the additional liability is directly related to the execution of a customer contract in progress, the estimated gross margin at completion of the contract is reassessed; the cumulated margin recognised to date based on the percentage of completion and the accrual for future contract loss, if any, are adjusted accordingly,
- if the additional liability is not directly related to a contract in progress, a liability is immediately recognised on the balance sheet.

The contractual obligations of subcontractors towards the Group are of the same nature as those of the Group towards its customers. They may be secured by the same type of guarantees as those provided to the Group's customers.
No contingent asset is disclosed when the likelihood of the obligation of the third party remains remote or possible. A contingent asset is disclosed only when the obligation becomes probable.

Any additional income resulting from a third party obligation is taken into account only when it becomes virtually certain.

Commitments arising from execution of operations not wholly within the control of the Group

Obligations towards third parties may arise from on-going legal proceedings, credit guarantees covering the financial obligations of third parties in cases where the Group is the vendor, and indemnification guarantees issued in connection with disposals of business entities.

In case of legal proceedings, a contingent liability is disclosed when the liability is considered as only possible but not probable, or, when probable, cannot be reliably measured. In case of commitments arising from guarantees issued, contingent liabilities are disclosed as soon as guarantees have been delivered and as long as they have not matured.

A provision is recorded if the obligation is considered as probable and can be reliably measured.

Contingent assets arising from legal proceedings or guarantees delivered by third parties are only disclosed when they become probable.

2.3.23. Earnings per share

Basic earnings per share are computed by dividing the period net profit (loss) before the financial cost (net of tax) of bonds reimbursable with shares, by the weighted average number of outstanding shares during the period increased by the weighted average number of shares to be issued on reimbursement of bonds reimbursable with shares ("ORA").

Diluted earnings per share are computed by dividing the period net profit (loss) before the financial cost (net of tax) of bonds reimbursable with shares, by the weighted average number of outstanding shares during the period adjusted in order to take into consideration all dilutive instruments (ORA, stock options, free shares).

Note 3. Scope of consolidation

Transmashholding

On 27 May 2011, Alstom finalised its partnership agreement with Transmashholding ("TMH"), the leading Russian rail manufacturer, by acquiring a 25% stake (plus one share) of the Breakers Investments B.V., which holds 100% of Transmashholding. The deal was closed after Alstom received all approvals of the appropriate Russian authorities.
Alstom share in the Breakers Investments B.V. group is an investment in associates and is therefore accounted in accordance with the equity method.
Pursuant to the closing of the deal, Alstom made, during the fiscal year ended 31 March 2012, an initial payment of $75 million (€54 million) to the selling shareholders. The remainder of the price was calculated using a computation method based on TMH operating results over a four-year period (2008-2011) and net debt. It was paid in October 2012 for an amount of $347 million (€253 million).
In accordance with IAS 28, the Group has recognised its share in the net fair values of the associate's identifiable assets acquired and liabilities assumed at the acquisition date. The valuation of assets acquired and liabilities assumed at their fair value has resulted in the recognition of new intangible assets (order backlog margin and customer relationships) and the re-measurement of tangible assets, inventories and liabilities. This valuation was finalised on 27 May 2012. The resulting goodwill amounts to €117 million and is included in the carrying amount of the investment.

BrightSource Energy

On 25 October 2012, Alstom has invested $40 million in the American company BrightSource Energy, Inc to reinforce its partnership with the solar power pioneering company. Since its initial investment in 2010, Alstom has progressively increased its investment and now holds more than 20% of the capital.
Since that date, BrightSource Energy Inc has been consolidated under the equity method. Accordingly, a preliminary valuation has been determined as at 25 October 2012. The fair value of assets acquired and liabilities assumed may be subsequently adjusted during a maximum of 12 months from the date the investment becomes an associate, depending on new information obtained about the facts and circumstances existing at the acquisition date.

Note 4. Segment information

4.1 Key indicators by operating segment

At 31 March 2013

(in € million)	Thermal Power	Renewable Power	Grid	Transport	Corporate & others	Elimina-tions	Total
Sales	9,252	1,808	3,922	5,461	-	(174)	20,269
Inter Sector eliminations	(73)	(5)	(93)	(3)	-	174	-
Total Sales	**9,179**	**1,803**	**3,829**	**5,458**	**-**	**-**	**20,269**
Income (loss) from operations	959	88	238	297	(119)	-	1,463
Earnings (loss) before interest and taxes	**915**	**(10)**	**140**	**287**	**(145)**	**-**	**1,187**
Financial income (expense)							(223)
Income tax							(193)
Share in net income of equity investments							47
Net profit							**818**
Segment assets (1)	**10,835**	**3,106**	**5,462**	**6,648**	**1,227**	**-**	**27,278**
Deferred taxes (assets)							1,711
Prepaid employee defined benefit costs							10
Financial assets							2,613
Total assets							**31,612**
Segment liabilities (2)	**8,571**	**1,906**	**3,280**	**4,724**	**1,146**	**-**	**19,627**
Deferred taxes (liabilities)							284
Accrued employee defined benefit costs							1,642
Financial debt							4,955
Total equity							5,104
Total equity and liabilities							**31,612**
Capital employed (3)	**2,264**	**1,200**	**2,182**	**1,924**	**81**	**-**	**7,651**
Capital expenditure	**(238)**	**(166)**	**(113)**	**(175)**	**(46)**	**-**	**(738)**
Depreciation and amortisation in EBIT	**225**	**34**	**134**	**125**	**44**	**-**	**562**

(1) Segment assets are defined as the sum of goodwill, intangible assets, property, plant and equipment, associates and other investments, other non current assets (other than those related to financial debt and to employee defined benefit plans), inventories, construction contracts in progress assets, trade receivables and other operating assets.

(2) Segment liabilities are defined as the sum of non-current and current provisions, construction contracts in progress liabilities, trade payables and other operating liabilities.

(3) Capital employed corresponds to segment assets *minus* segment liabilities.

At 31 March 2012

(in € million)	Thermal Power	Renewable Power	Grid	Transport	Corporate & others	Elimina-tions	Total
Sales	8,771	2,039	4,060	5,171	-	(107)	19,934
Inter Sector eliminations	(45)	(12)	(47)	(3)	-	107	-
Total Sales	**8,726**	**2,027**	**4,013**	**5,168**	**-**	**-**	**19,934**
Income (loss) from operations	850	150	248	264	(106)	-	1,406
Earnings (loss) before interest and taxes	**824**	**149**	**83**	**222**	**(206)**	**-**	**1,072**
Financial income (expense)							(177)
Income tax							(179)
Share in net income of equity investments							28
Net profit							**744**
Segment assets (1)	**11,570**	**2,674**	**5,197**	**5,778**	**1,814**	**-**	**27,033**
Deferred taxes (assets)							1,472
Prepaid employee defined benefit costs							12
Financial assets							2,530
Total assets							**31,047**
Segment liabilities (2)	**9,500**	**1,630**	**3,058**	**4,375**	**1,435**	**-**	**19,998**
Deferred taxes (liabilities)							176
Accrued employee defined benefit costs							1,417
Financial debt							5,022
Total equity							4,434
Total equity and liabilities							**31,047**
Capital employed (3)	**2,070**	**1,044**	**2,139**	**1,403**	**379**	**-**	**7,035**
Capital expenditure	**(264)**	**(179)**	**(140)**	**(188)**	**(42)**	**-**	**(813)**
Depreciation and amortisation in EBIT	**223**	**45**	**209**	**138**	**41**	**-**	**656**

(1) Segment assets are defined as the sum of goodwill, intangible assets, property, plant and equipment, associates and other investments, other non current assets (other than those related to financial debt and to employee defined benefit plans), inventories, construction contracts in progress assets, trade receivables and other operating assets.

(2) Segment liabilities are defined as the sum of non-current and current provisions, construction contracts in progress liabilities, trade payables and other operating liabilities.

(3) Capital employed corresponds to segment assets *minus* segment liabilities.

4.2 Key indicators by geographic area

Sales by country of destination

(in € million)	Year ended 31 March 2013	31 March 2012
Western Europe	6,571	7,077
thereof France	*2,168*	*2,136*
Eastern Europe	1,953	1,352
North America	2,583	2,440
thereof USA	*1,689*	*1,630*
South & Central America	1,561	1,752
Asia & Pacific	4,478	4,316
Middle East & Africa	3,123	2,997
Total Group	**20,269**	**19,934**

Non-current assets by country of origin

(in € million)	At 31 March 2013	At 31 March 2012
Western Europe (1)	9,280	8,704
thereof France (2)	*2,957*	*2,832*
Eastern Europe	245	310
North America	707	771
thereof USA	*588*	*670*
South & Central America	201	188
Asia & Pacific	885	885
Middle East & Africa	46	36
Total Group	**11,364**	**10,894**

(1) This amount includes goodwill of Thermal Power & Renewable Power Sectors.

(2) This amount includes goodwill of Grid Sector.

Non-current assets by country of origin are defined as non-current assets other than those related to financial debt, to employee defined benefit plans and deferred tax assets.

4.3 Information about major customers

No external customer represents individually 10% or more of the Group's consolidated sales.

Note 5. Research and development expenditure

(in € million)	Year ended 31 March 2013	Year ended 31 March 2012
Research and development expenses	**(737)**	**(682)**
Developments costs capitalised during the period (see Note 10.2)	(233)	(293)
Amortisation expense of capitalised development costs (see Note 10.2)	82	113
Amortisation of acquired technology (see Note 10.2)	94	82
Total research and development expenditure	**(794)**	**(780)**

During the fiscal year ended 31 March 2013, the Group invested €794 million in research and development to develop new technologies and to extend its existing product offering. These research and development programmes relate mainly to:

- the ongoing upgrade of the range of gas turbines and the incremental performance improvements of nuclear steam turbines,
- the adaptation of Transport sector product offering to the clients' needs,
- the development of Haliade offshore wind turbines,
- the development of Super Grid and Smart Grid technologies.

Note 6. Other income and other expense

(in € million)	Year ended 31 March 2013	31 March 2012
Capital gains on disposal of businesses	6	-
Other	-	3
Other income	**6**	**3**
Capital losses on disposal of businesses	(50)	(2)
Restructuring costs	(137)	(83)
Expenses exclusively incurred in the context of business combinations	(45)	(156)
Other	(50)	(96)
Other expense	**(282)**	**(337)**
Other income (expense)	**(276)**	**(334)**

Restructuring costs derive from the adaptation of the Group's footprint in order to take into account the lower demand in developed countries (Europe and USA) and the situation of global overcapacity faced in some segments.

Expenses exclusively incurred in the context of business combinations comprise the amortisation of acquired margin related to Grid's acquisition and the costs incurred to effect the acquisition of Grid.

Other income and other expense mainly derive from components of the post-employment and other long term defined benefit expense, costs of legal proceedings that have arisen outside the ordinary course of business and non-recurring impairment losses on assets.

Note 7. Financial income (expense)

(in € million)	Year ended 31 March 2013	31 March 2012
Interest income	29	37
Other financial income	7	18
Financial income	**36**	**55**
Interest expense	(194)	(179)
Net financial expense from employee defined benefit plans	(27)	(4)
Net exchange loss	(5)	(11)
Other financial expenses	(33)	(38)
Financial expense	**(259)**	**(232)**
Financial income (expense)	**(223)**	**(177)**
Out of which		
Financial income/(expense) arising from Financial instruments (see Note 25)	(195)	(173)

Interest income of €29 million represents the remuneration of the Group's cash positions over the period.

Interest expense of €(194) million represents the cost of the gross financial debt.

Other financial expense of €(33) million incorporates fees and commitment fees paid on guaranteed facilities, syndicated loans and other financing facilities for €(19) million versus €(15) million for the fiscal year ended 31 March 2012.

Note 8. Taxation

8.1 Analysis of income tax charge

The following table summarises the components of income tax charge for the years ended 31 March 2013 and 2012:

	Year ended	
(in € million)	**31 March 2013**	**31 March 2012**
Current income tax charge	(266)	(273)
Deferred income tax charge	73	94
Income tax charge	**(193)**	**(179)**
Effective tax rate	20%	20%

The geographical mix of income before taxes has enabled the Group to maintain the effective tax rate to 20% for the period ended 31 March 2013. Note that, although the rate has been stable over the last years, it may change from one year to another notably based on the following events:

- the geographical mix of income before taxes,
- the Group's ability to recognise new deferred tax assets and to use its tax loss carry forwards and,
- the outcome of income tax audits.

8.2 Effective income tax rate

The following table provides a reconciliation from the income tax charge valued at the French statutory rate to the actual income tax charge for the years ended 31 March 2013 and 2012:

	Year ended	
(in € million)	31 March 2013	31 March 2012
Pre-tax income	**964**	**895**
Statutory income tax rate of the parent company	34.43%	34.43%
Expected tax charge	**(332)**	**(308)**
Impact of:		
- Difference between normal tax rate applicable in France and normal tax rate in force in jurisdictions outside France	144	105
- Transactions liable for reduced tax rate	(20)	11
- Changes in unrecognised deferred tax assets	2	(69)
- Changes in tax rates	(10)	(7)
- Additional tax expenses (withholding tax, CVAE in France and IRAP in Italy)	(68)	(73)
- Permanent differences and other (*)	91	162
Income tax charge	**(193)**	**(179)**
Effective tax rate	20%	20%

(*) including operations of internal reorganisation

8.3 Deferred tax assets and liabilities

(in € million)	At 31 March 2013	At 31 March 2012
Deferred tax assets	1,711	1,472
Deferred tax liabilities	(284)	(176)
Deferred tax assets, net	**1,427**	**1,296**

8.4 Changes in net deferred tax assets

Net deferred tax assets reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table summarises the significant components of the Group's net deferred tax assets as of 31 March 2013 and 2012:

(in € million)	At 31 March 2012	Change in P&L	Change in equity (*)	Changes in consolidation scope	Translation adjustments and other changes	At 31 March 2013
Differences between carrying amount and tax basis of tangible and intangible assets	(21)	(24)	-	11	(37)	(71)
Accruals for employee benefit costs not yet deductible	242	(16)	55	-	(3)	278
Provisions and other accruals not yet deductible	500	53	-	-	(37)	516
Differences in recognition of margin on construction contracts	(279)	48	-	-	98	(133)
Tax loss carry forwards	1,035	(106)	-	-	(51)	878
Other	(181)	118	(2)	(4)	28	(41)
Net deferred tax assets/(liabilities)	**1,296**	**73**	**53**	**7**	**(2)**	**1,427**

(*) Mainly related to actuarial gains and losses directly recognised in equity (see consolidated statement of comprehensive income).

(in € million)	At 31 March 2011	Change in P&L	Change in equity (*)	Acquisitions through business combinations	Translation adjustments and other changes	At 31 March 2012
Differences between carrying amount and tax basis of tangible and intangible assets	(13)	(13)	-	-	5	(21)
Accruals for employee benefit costs not yet deductible	213	(15)	31	1	12	242
Provisions and other accruals not yet deductible	500	(1)	-	-	1	500
Differences in recognition of margin on construction contracts	(299)	11	-	-	9	(279)
Tax loss carry forwards	911	177	-	(5)	(48)	1,035
Other	(113)	(65)	4	15	(22)	(181)
Net deferred tax assets/(liabilities)	**1,199**	**94**	**35**	**11**	**(43)**	**1,296**

(*) Mainly related to actuarial gains and losses directly recognised in equity (see consolidated statement of comprehensive income).

The Group is satisfied as to the recoverability of its recognised net deferred tax assets at 31 March 2013 (€1,427 million) on the basis of an extrapolation of the last three-year business plan and the strategy for the long-term recovery of tax losses in each country.

Deferred tax assets still unrecognised amount to €1,255 million at 31 March 2013 (€1,225 million at 31 March 2012). Most of these unrecognised deferred taxes are originated from tax loss carry forward (€1,052 million at 31 March 2013 and €827 million at 31 March 2012), out of which €491 million are not subject to expiry at 31 March 2013 (€500 million at 31 March 2012).

Note 9. Earnings per share

9.1 Earnings

(in € million)	Year ended 31 March 2013	Year ended 31 March 2012
Net profit attributable to equity holders of the parent	802	732
Earnings attributable to equity holders of the parent used to calculate basic and diluted earnings per share	**802**	**732**

9.2 Number of shares

	Year ended 31 March 2013	Year ended 31 March 2012
Weighted average number of ordinary shares used to calculate basic earnings per share	**301,376,784**	**294,522,251**
Effect of dilutive instruments other than bonds reimbursables with shares:		
- Stock options and free shares (*) (LTI plan)	2,724,963	2,962,692
- Free shares (Alstom Sharing plans)	226,044	225,727
Weighted average number of ordinary shares used to calculate diluted earnings per share	**304,327,791**	**297,710,670**

(*) Stock options taken into consideration in the calculation of the diluted earnings per share only relate to plans 7,8 and 14, plans 9, 10, 12, 13 and 15 being out of the money as at 31 March 2013.

9.3 Earnings per share

(in €)	Year ended 31 March 2013	Year ended 31 March 2012
- Basic earnings per share	2.66	2.49
- Diluted earnings per share	2.64	2.46

Note 10. Goodwill and intangible assets

Goodwill and intangible assets are reviewed for impairment at least annually and whenever events or circumstances indicate that they might be impaired. Such events or circumstances are related to significant, unfavourable changes that are of a lasting nature and affect either the economic environment or the assumptions or the targets adopted as of the acquisition date. An impairment loss is recognised when the recoverable value of the assets tested becomes durably lower than their carrying value.

10.1 Goodwill

(in € million)	At 31 March 2012	Acquisitions and adjustments on preliminary goodwill	Disposals	Translation adjustments and other changes	At 31 March 2013
Thermal Power	3,208	-	(3)	16	3,221
Renewable Power	489	-	-	-	489
Transport	661	29	-	1	691
Grid	1,125	9	-	1	1,135
Goodwill	**5,483**	**38**	**(3)**	**18**	**5,536**
of which:					
Gross value	5,483	38	(3)	18	5,536
Impairment	-	-	-	-	-

(in € million)	At 31 March 2011	Acquisitions and adjustments on preliminary goodwill	Disposals	Translation adjustments and other changes	At 31 March 2012
Thermal Power	3,180	-	-	28	3,208
Renewable Power	488	-	-	1	489
Transport	568	90	-	3	661
Grid	1,160	(37)	-	2	1,125
Goodwill	**5,396**	**53**	**-**	**34**	**5,483**
of which:					
Gross value	5,396	53	-	34	5,483
Impairment	-	-	-	-	-

Goodwill impairment test

As of 31 March 2013, Alstom tested the value of goodwill allocated to its groups of Cash Generating Units (CGU) applying valuation methods consistent with previous years. Alstom ensured that the recoverable amount of groups of CGU exceeded their carrying value (including goodwill).

Presentation of key assumptions used for the determination of recoverable amounts

The value in use of each group of CGU is determined as the discounted value of future cash flows by using cash flow projections for the next three years consistent with the Group's internal business plan, the extrapolation of the two following years and the most recent forecasts prepared by the Sectors.

The value in use is mainly driven by the terminal value which is particularly sensitive to changes in the assumptions on the discount rate after tax, the long-term growth rate and the terminal value operating margin (corresponding to the ratio Income from Operations over Sales).

The main assumptions used to assess the recoverable amounts of goodwill are as follows:

	Thermal Power	Renewable Power	Transport	Grid
Net carrying amount of goodwill at 31 March 2013 (in € million)	3,221	489	691	1,135
Value elected as representative of the recoverable value	value in use	value in use	value in use	value in use
Number of years over which cash flow estimates are available	3 years	3 years	3 years	3 years
Extrapolation period of cash flow estimates	2 years	2 years	2 years	2 years
Long-term growth rate at 31 March 2013	**2.0%**	**2.0%**	**1.5%**	**2.0%**
Long-term growth rate at 31 March 2012	2.0%	2.0%	1.5%	2.0%
After tax discount rate at 31 March 2013 (*)	**9.0%**	**9.0%**	**9.0%**	**9.0%**
After tax discount rate at 31 March 2012 (*)	9.0%	9.0%	9.0%	9.0%

(*) The application of pre-tax discount rates to pre-tax cash flows leads to the same valuation of cash generating units.

As of 31 March 2013, the recoverable amounts of the 4 Sectors exceeded their carrying value and the impairment test supports the Group's opinion that goodwill is not impaired.

For all the Sectors, no impairment of the goodwill would need to be recognized when the value in use is calculated by using either:

- A discount rate that ranges from 120 to 2 100 basis points above the base rate of 9%, depending on the Sector;
- A below 0.5% long-term growth rate.

Sensitivity of enterprise values to key assumptions can be presented as follows:

(in € million)	**Thermal Power**		**Renewable Power**		**Transport**		**Grid**	
	-100 bp	*+100 bp*	*-100 bp*	*+100 bp*	*-100 bp*	*+100 bp*	*-100 bp*	*+100 bp*
After tax discount rate	1,687	(1,263)	322	(239)	531	(405)	444	(332)
	-50 bp	*+50 bp*	*-50 bp*	*+50 bp*	*-50 bp*	*+50 bp*	*-50 bp*	*+50 bp*
Long-term growth rate	(621)	716	(105)	121	(172)	196	(142)	164

10.2 Intangible assets

(in € million)	**At 31 March 2012**	**Additions / disposals / amortisation**	**Changes in consolidation scope**	**Translation adjustments and other changes**	**At 31 March 2013**
Development costs	1,686	233	-	(19)	1,900
Acquired technology	1,422	-	-	-	1,422
Other intangible assets	697	36	13	76	822
Gross value	**3,805**	**269**	**13**	**57**	**4,144**
Development costs	(657)	(82)	-	15	(724)
Acquired technology	(748)	(94)	-	-	(842)
Other intangible assets	(479)	(70)	1	(48)	(596)
Amortisation and impairment	**(1,884)**	**(246)**	**1**	**(33)**	**(2,162)**
Development costs	1,029	151	-	(4)	1,176
Acquired technology	674	(94)	-	-	580
Other intangible assets	218	(34)	14	28	226
Net value	**1,921**	**23**	**14**	**24**	**1,982**

(in € million)	At 31 March 2011	Additions / disposals / amortisation	Acquisitions through business combinations	Translation adjustments and other changes	At 31 March 2012
Development costs	1,395	293	-	(2)	1,686
Acquired technology	1,422	-	-	-	1,422
Other intangible assets	678	6	(3)	16	697
Gross value	**3,495**	**299**	**(3)**	**14**	**3,805**
Development costs	(549)	(113)	-	5	(657)
Acquired technology	(668)	(82)	-	2	(748)
Other intangible assets	(344)	(124)	-	(11)	(479)
Amortisation and impairment	**(1,561)**	**(319)**	**-**	**(4)**	**(1,884)**
Development costs	846	180	-	3	1,029
Acquired technology	754	(82)	-	2	674
Other intangible assets	334	(118)	(3)	5	218
Net value	**1,934**	**(20)**	**(3)**	**10**	**1,921**

Technology and licence agreements acquired through the combination with ABB ALSTOM POWER in 1999 and 2000 and through the combination with Grid activities in 2010 represent the bulk of the gross amount reported as acquired technology.

The impairment test at 31 March 2013 supports the Group's opinion that intangible assets are not impaired.

Note 11. Property, plant and equipment

(in € million)	At 31 March 2012	Acquisitions/ Amortisation/ Impairments	Disposals	Changes in consolidation scope	Translation adjustments and other changes	At 31 March 2013
Land	195	4	(7)	-	4	196
Buildings	1,760	61	(24)	63	63	1,923
Machinery and equipment	2,842	155	(155)	5	104	2,951
Constructions in progress	334	188	(4)	-	(126)	392
Tools, furniture, fixtures and other	584	42	(56)	(1)	(73)	496
Gross value	**5,715**	**450**	**(246)**	**67**	**(28)**	**5,958**
Land	(9)	-	(1)	-	-	(10)
Buildings	(673)	(77)	18	3	(7)	(736)
Machinery and equipment	(1,798)	(179)	126	4	(5)	(1,852)
Constructions in progress	-	-	-	-	-	-
Tools, furniture, fixtures and other	(383)	(44)	48	1	42	(336)
Amortisation and impairment	**(2,863)**	**(300)**	**191**	**8**	**30**	**(2,934)**
Land	186	4	(8)	-	4	186
Buildings	1,087	(16)	(6)	66	56	1,187
Machinery and equipment	1,044	(24)	(29)	9	99	1,099
Constructions in progress	334	188	(4)	-	(126)	392
Tools, furniture, fixtures and other	201	(2)	(8)	-	(31)	160
Net value	**2,852**	**150**	**(55)**	**75**	**2**	**3,024**

(in € million)	At 31 March 2011	Acquisitions/ Amortisation/ Impairments	Disposals	Acquisitions through business combinations	Translation adjustments and other changes	At 31 March 2012
Land	197	6	(5)	-	(3)	195
Buildings	1,612	72	(6)	(5)	87	1,760
Machinery and equipment	2,716	145	(103)	-	84	2,842
Constructions in progress	262	209	(1)	-	(136)	334
Tools, furniture, fixtures and other	538	53	(42)	-	35	584
Gross value	**5,325**	**485**	**(157)**	**(5)**	**67**	**5,715**
Land	(9)	-	-	-	-	(9)
Buildings	(603)	(68)	10	-	(12)	(673)
Machinery and equipment	(1,715)	(185)	96	-	6	(1,798)
Constructions in progress	-	-	-	-	-	-
Tools, furniture, fixtures and other	(347)	(54)	38	-	(20)	(383)
Amortisation and impairment	**(2,674)**	**(307)**	**144**	**-**	**(26)**	**(2,863)**
Land	188	6	(5)	-	(3)	186
Buildings	1,009	4	4	(5)	75	1,087
Machinery and equipment	1,001	(40)	(7)	-	90	1,044
Constructions in progress	262	209	(1)	-	(136)	334
Tools, furniture, fixtures and other	191	(1)	(4)	-	15	201
Net value	**2,651**	**178**	**(13)**	**(5)**	**41**	**2,852**

The net value of tangible assets held under finance leases and included in the above data is as follows:

(in € million)	At 31 March 2013	At 31 March 2012
Land	13	13
Buildings	63	70
Machinery and equipment	1	3
Tools, furniture, fixtures and other	13	15
Net value of tangible assets held under finance leases	**90**	**101**

Commitments to purchase fixed assets amount to €118 million at 31 March 2013. They notably arise from the construction of a new facility in India for the manufacturing of turbines and in Germany.

Note 12. Associates and non consolidated investments

12.1 Associates

Financial information on associates

(in € million)	At 31 March 2013	At 31 March 2012	At 31 March 2013 % ownership
The Breakers Investments B.V. (Transmashholding)(1)	388	307	25.0%
BrightSource Energy(2)	106	-	25.2%
NTL (Translohr) (3)	25	-	51.0%
Cerrey - Babcock & Wilcox de Mexico	23	19	25.0%
Other (4)	55	51	-
Total Associates	**597**	**377**	

(1) see Note 3

(2) Following an additional investment of $40 million in October 2012, BrightSource Energy is consolidated under equity method instead of being accounted as a non-consolidated investment before.

(3) NTL was acquired on 28 September 2012. Based on contractual agreements, Alstom doesn’t exercise control over NTL.

(4) No other investment's net value individually exceeds €15 million.

(in € million)	Closing date	Total assets at closing date	Total liabilities at closing date	Total revenues	Total net profit (loss)
The Breakers Investments B.V. (Transmashholding) (1)	31 December	2,373	1,241	2,807	219
BrightSource Energy	31 December	449	300	226	(118)
NTL (Translohr) (2)	30 June	64	44	-	-
Cerrey - Babcock & Wilcox de Mexico	31 December	232	138	179	12

(1) Financial statements of year end closing 31 December 2012 are not yet available. Financial statements of year end closing 31 December 2011 are mentionned here.

(2) Latest financial statements available, at the date of transfer of assets from Lohr industrie.

Movements in the period

	Year ended	
(in € million)	31 March 2013	31 March 2012
Opening balance	**377**	**43**
Share in net income/(loss) of equity investments	47	28
Dividends	(29)	(1)
Acquisitions	80	276
Transfer from non consolidated investments	118	22
Translation adjustments and other	4	9
Closing balance	**597**	**377**

12.2 Non-consolidated investments

Financial information on non-consolidated investments

(in € million)	At 31 March 2013			At 31 March 2012	At 31 March 2013
	Gross	**Impairment**	**Net**	**Net**	**% ownership**
Tidal Generation Ltd (1)	50	-	50	-	100.0%
BrightSource Energy (2)	-	-	-	97	
Other (3)	60	(9)	51	57	
Total	**110**	**(9)**	**101**	**154**	

(1) On 29 January 2013, Alstom completed the acquisition of Tidal Generation Limited. Tidal Generation Limited is at the forefront in the design, development and manufacture of tidal stream turbines which capture and convert the energy of tidal streams to generate electrical power. Alstom made an initial payment of £16 million (approximately €21 million) to the selling shareholder. The remainder of the price will be based on the achievement of technical milestones and paid by the end of June 2014. As its consolidation did not have a material impact on the consolidated financial statement at 31 March 2013, Tidal Generation Limited will be consolidated from 01 April 2013.

(2) Following an additional investment of $40 million in October 2012, BrightSource Energy is consolidated under equity method instead of being accounted as a non-consolidated investment before.

(3) No other investment's net value individually exceeds €10 million.

Movements in the period

(in € million)	Year ended 31 March 2013	31 March 2012
Opening balance	**154**	**164**
Change in fair value (*)	(1)	(13)
Acquisitions	62	16
Transfer to associates	(114)	(25)
Translation adjustments and other	-	12
Closing balance	**101**	**154**

(*) variation recorded in other comprehensive income as fair value gains / (losses) on assets available for sale

Note 13. Other non-current assets

(in € million)	At 31 March 2013	At 31 March 2012
Financial non-current assets associated to financial debt (*)	382	426
Long-term loans, deposits and other	133	119
Other non-current assets	**515**	**545**

(*) These non-current assets relate to a long-term rental of trains and associated equipment to a London metro operator (see Notes 24 and 29). They are made up as follows:

- at 31 March 2013, €368 million receivables and €14 million deposit;
- at 31 March 2012, €400 million receivables and €26 million deposit.

Note 14. Inventories

(in € million)	At 31 March 2013	At 31 March 2012
Raw materials and supplies	989	910
Work in progress	2,145	2,207
Finished products	354	374
Inventories, gross	**3,488**	**3,491**
Raw materials and supplies	(138)	(154)
Work in progress	(157)	(144)
Finished products	(49)	(55)
Write-down	**(344)**	**(353)**
Inventories, net	**3,144**	**3,138**

Changes in inventory write-down recognised as income for the fiscal year ended 31 March 2013 amount to €9 million (€47 million income for the year ended 31 March 2012).

Note 15. Construction contracts in progress

(in € million)	At 31 March 2013	At 31 March 2012	Variation
Construction contracts in progress, assets	4,158	3,752	406
Construction contracts in progress, liabilities	(9,909)	(9,508)	(401)
Construction contracts in progress	**(5,751)**	**(5,756)**	**5**

(in € million)	At 31 March 2013	At 31 March 2012	Variation
Contract costs incurred *plus* recognised profits *less* recognised losses to date	58,511	55,138	3,373
Less progress billings	(61,084)	(57,463)	(3,621)
Construction contracts in progress excluding down payments received from customers	**(2,573)**	**(2,325)**	**(248)**
Down payments received from customers	(3,178)	(3,431)	253
Construction contracts in progress	**(5,751)**	**(5,756)**	**5**

Note 16. Trade receivables

			Past due on the closing date		
(in € million)	Total	No past due on the closing date	Less than 60 days	Between 60 and 180 days	More than 180 days
Trade receivables at 31 March 2013	**5,285**	**4,287**	**350**	**261**	**387**
o/w gross	5,394	4,307	351	265	471
o/w impairment	(109)	(20)	(1)	(4)	(84)
Trade receivables at 31 March 2012	**5,692**	**4,705**	**335**	**200**	**452**
o/w gross	5,806	4,732	337	203	534
o/w impairment	(114)	(27)	(2)	(3)	(82)

Impairment losses are determined considering the risk of non-recovery assessed on a case by case basis. Due to the type of business operated by the Group, past due receivables are frequently representative of outstanding amounts confirmed by customers but whose payment is subject to clearance of items raised during inspection of works. Such receivables do remain fully recoverable; costs to be incurred for the clearance of pending items are included in the determination of the margin at completion of the related contracts.

Note 17. Other current operating assets

(in € million)	At 31 March 2013	At 31 March 2012
Down payments made to suppliers	735	515
Corporate income tax	184	192
Other taxes	842	1,046
Prepaid expenses	236	431
Other receivables	408	443
Derivatives relating to operating activities	333	283
Remeasurement of hedged firm commitments in foreign currency	590	647
Other current operating assets	**3,328**	**3,557**

Note 18. Marketable securities and other current financial assets

(in € million)	At 31 March 2013	At 31 March 2012
Derivatives related to financing activities	35	10
Marketable securities	1	3
Marketable securities and other current financial assets	**36**	**13**

Note 19. Working capital

19.1 Balance sheet positions

(in € million)	At 31 March 2013	At 31 March 2012	Variation
Inventories	3,144	3,138	6
Construction contracts in progress, assets	4,158	3,752	406
Trade receivables	5,285	5,692	(407)
Other current operating assets	3,328	3,557	(229)
Assets	**15,915**	**16,139**	**(224)**
Non-current provisions	680	804	(124)
Current provisions	1,309	1,414	(105)
Construction contracts in progress, liabilities	9,909	9,508	401
Trade payables	4,041	4,080	(39)
Other current operating liabilities	3,688	4,192	(504)
Liabilities	**19,627**	**19,998**	**(371)**
Working capital	**(3,712)**	**(3,859)**	**147**

19.2 Analysis of variation in working capital

(in € million)	Year ended 31 March 2013
Working capital at the beginning of the period	**(3,859)**
Changes in working capital resulting from operating activities (1)	150
Changes in working capital resulting from investing activities (2)	(31)
Translation adjustments and other changes	28
Total changes in working capital	**147**
Working capital at the end of the period	**(3,712)**

(1) Item presented within "net cash provided by/(used in) operating activities" in the consolidated statement of cash flows
(2) Item presented within "net cash provided by/(used in) investing activities" in the consolidated statement of cash flows

Note 20. Equity

When managing capital, the objective of the Group is to safeguard its ability to continue as a going concern so that it can provide returns to shareholders, bring benefits to its other partners and optimise the structure of the capital in order to reduce its cost. To achieve this, the Group may choose to:

- adjust the amount of dividends paid to the shareholders;
- reimburse a portion of capital to the shareholders;
- issue new shares; or,
- sell assets in order to scale back its net debt.

20.1. Movements in share capital

Movements in financial year ended 31 March 2013

At 31 March 2013, the share capital of ALSTOM amounted to € 2,157,106,882 consisting of 308,158,126 ordinary shares with a par value of €7 each. For the year ended 31 March 2013, the weighted average number of outstanding ordinary shares amounted to 301,376,784 after the dilutive effect of bonds reimbursable in shares “Obligations Remboursables en Actions” and to 304,327,791 after the effect of all dilutive instruments.

As of 4 October 2012, ALSTOM SA ("the Company") completed a €350 million share capital increase through a private placement to institutional investors. 13 133 208 new shares were issued at a subscription price of €26.65 per share.

During the year ended 31 March 2013, 128 bonds reimbursable in shares "Obligations Remboursables en Actions" were converted into 8 shares at a par value of €7. The 81,266 bonds reimbursable with shares outstanding at 31 March 2013 represent 5,104 shares to be issued.

Movements in financial year ended 31 March 2012

At 31 March 2012, the share capital of ALSTOM amounted to € 2,061,735,760 consisting of 294,533,680 ordinary shares with a par value of €7 each. For the year ended 31 March 2012, the weighted average number of outstanding ordinary shares amounted to 294,522,251 after the dilutive effect of bonds reimbursable in shares "Obligations Remboursables en Actions" and to 297,710,670 after the effect of all dilutive instruments.

During the year ended 31 March 2012, 288 bonds reimbursable in shares "Obligations Remboursables en Actions" were converted into 18 shares at a par value of €7. The 81,394 bonds reimbursable with shares outstanding at 31 March 2012 represent 5,112 shares to be issued.

20.2. Distribution of dividends

In respect of the financial year ended 31 March 2013, it will be proposed to the Shareholders' meeting called on 2 July 2013 to distribute dividends for a total amount of €259 million corresponding to a €0.84 dividend per share.

The following dividends were distributed in respect of the previous three financial years:
- year ended 31 March 2012 (decision of Shareholders' meeting held on 26 June 2012): total amount of €236 million, corresponding to a €0.80 dividend per share;
- year ended 31 March 2011 (decision of Shareholders' meeting held on 28 June 2011): total amount of €183 million, corresponding to a €0.62 dividend per share;
- year ended 31 March 2010 (decision of Shareholders' meeting held on 22 June 2010): total amount of €364 million, corresponding to a €1.24 dividend per share.

Note 21. Share-based payments

21.1. Stock options and free shares

Key characteristics

	Plans issued by shareholders meeting on 9 July 2004			Plans issued by shareholders meeting on 26 June 2007					
	Plan n°7	Plan n°8	Plan n°9	Plan n°10	Plan n°10	Plan n°11	Plan n°11	Plan n°12	Plan n°12
	stock options	stock options	stock options	stock options	free shares	stock options	free shares	stock options	free shares
Grant date	17/09/2004	27/09/2005	28/09/2006	25/09/2007	25/09/2007	23/09/2008	23/09/2008	21/09/2009	21/09/2009
Exercise period	17/09/2007 16/09/2014	27/09/2008 26/09/2015	28/09/2009 27/09/2016	25/09/2010 24/09/2017	n/a	23/09/2011 22/09/2018	n/a	21/09/2012 20/09/2017	n/a
Number of beneficiaries	1,007	1,030	1,053	1,196	1,289	411	1,431	436	1,360
Adjusted number granted (1)	5,566,000	2,803,000	3,367,500	1,697,200	252,000	754,300	445,655	871,350	522,220
Adjusted number exercised since the origin	4,707,109	1,834,271	526,967	1,000	220,320	-	-	-	80,928
Adjusted number cancelled since the origin	417,200	268,500	388,744	226,500	31,680	754,300	445,655	552,570	340,988
Ajusted number outstanding at 31 March 2013	441,691	700,229	2,451,789	1,469,700	-	-	-	318,780	100,304
inc. to the present members of the Executive Committee	9,572	8,000	325,000	171,100	-	-	-	50,100	320
Adjusted exercise price (2) (in €)	8.60	17.88	37.33	67.50	n/a	66.47	n/a	49.98	n/a
Fair value at grant date (in €)	7.30	10.30	12.90	29.24	129.20	16.71	63.54	11.26	48.11

(1) The number of options and free shares and the exercise price of options have been adjusted as a result of transactions that have impacted the number of capital shares after grant dates.
(2) The exercise price corresponds to the average opening price of the shares during the twenty trading days preceding the day on wich the options were granted by the Board (no discount or surcharge).

	Plans issued by shareholders meeting on 22 June 2010					
	Plan n°13	Plan n°13	Plan n°14	Plan n°14	Plan n°15	Plan n°15
	stock options	free shares	stock options	free shares	stock options	free shares
Grant date	13/12/2010	13/12/2010	04/10/2011	04/10/2011	10/12/2012	10/12/2012
Exercise period	13/12/2013 12/12/2018	n/a	04/10/2014 03/10/2019	n/a	10/12/2015 09/12/2020	n/a
Number of beneficiaries	528	1,716	514	1,832	538	1,763
Adjusted number granted (1)	1,235,120	740,860	1,369,180	804,040	1,312,690	781,540
Adjusted number exercised since the origin	-	1,930	-	460	-	-
Adjusted number cancelled since the origin	281,039	150,285	267,652	139,722	6,910	9,500
Ajusted number outstanding at 31 March 2013	954,081	588,645	1,101,528	663,858	1,305,780	772,040
inc. to the present members of the Executive Committee	120,735	10,341	337,500	38,700	340,000	43,000
Adjusted exercise price (2) (in €)	33.14	n/a	26.39	n/a	27.70	n/a
Fair value at grant date (in €)	7.59	31.35	3.14	19.77	5.80	26.70

(1) The number of options and free shares and the exercise price of options have been adjusted as a result of transactions that have impacted the number of capital shares after grant dates.
(2) The exercise price corresponds to the average opening price of the shares during the twenty trading days preceding the day on wich the options were granted by the Board (no discount or surcharge).

At 31 March 2013, stock options granted by plans 7, 8, 9 10, 11 and 12 are fully vested. These options will expire seven years after the end of the vesting period of each plan. Starting plan 12, the options will expire five years after the end of the vesting period.

The long term incentive plans set up since 2007 combine the allocation of stock options with the allocation of free shares.
The grant of these instruments is conditional upon the group satisfying the following performance conditions.

LTI plan 13 granted on 13 December 2010:
The total number of options exercisable and free shares to be delivered will depend on the Group's operating margin for the fiscal years ended 31 March 2011, 31 March 2012 and 31 March 2013:

	% of options exercisable & free shares to be delivered		
	Year ended 31 March 2011	**Year ended 31 March 2012**	**Year ended 31 March 2013**
Operating margin achieved above or equal to 7.5%	40%	40%	20%
Operating margin achieved between 7% (inclusive) and 7.5% (non inclusive)	30%	30%	10%
Operating margin achieved between 6.5% (inclusive) and 7% (non inclusive)	10%	10%	0%
Operating margin achieved below 6.5%	0%	0%	0%

Based on consolidated financial statements for the fiscal years ended 31 March 2011, 31 March 2012 and 31 March 2013, the performance condition is achieved for 80% of an allotment of LTIP13 options and free shares. 20% of options and free shares are cancelled.

LTI plan 14 granted on 4 October 2011:

The total number of options exercisable and free shares to be delivered will depend on the Group's operating margin for the fiscal years ended 31 March 2012 and 31 March 2013 and 31 March 2014:

	% of options exercisable & free shares to be delivered		
	Year ended 31 March 2012	Year ended 31 March 2013	Year ended 31 March 2014
Operating margin achieved above or equal to 7.5%	40%	40%	20%
Operating margin achieved between 7% (inclusive) and 7.5% (non inclusive)	30%	30%	10%
Operating margin achieved between 6.5% (inclusive) and 7% (non inclusive)	10%	10%	0%
Operating margin achieved below 6.5%	0%	0%	0%

Based on consolidated financial statements for the fiscal years ended 31 March 2012 and 31 March 2013, the performance condition is achieved for 60% of an allotment of LTIP14 options and free shares. 20% of options and free shares are cancelled.

LTI plan 15 granted on 10 December 2012:

The total number of options exercisable and free shares to be delivered will depend on the Group's operating margin and the free cash flow for the fiscal years ended 31 March 2013, 31 March 2014 and 31 March 2015:

Year ended 31 March 2013	% of Conditional Options exercisable & free shares to be delivered	Year ended 31 March 2014	% of Conditional Options exercisable & free shares to be delivered	Year ended 31 March 2015	% of Conditional Options exercisable & free shares to be delivered
FCF(*) ≥ 0 and OM(*) ≥ 7.4%	40%	FCF ≥ 0 and OM ≥ 7.6%	40%	FCF ≥ 0 and OM ≥ 8%	20%
FCF ≥ 0 and 7.2% ≤ OM < 7.4%	30%	FCF ≥ 0 and 7.3% ≤ OM < 7.6%	30%	FCF ≥ 0 and 7.5% ≤ OM < 8%	10%
FCF ≥ 0 and 7% ≤ OM < 7.2%	10%	FCF ≥ 0 and 7% ≤ OM < 7.3%	10%	FCF < 0 or OM < 7.5%	0
FCF < 0 or OM < 7%	0	FCF < 0 or OM < 7%	0	-	-

(*) FCF means Free cash flow and OM operating margin

Based on consolidated financial statements for the fiscal year ended 31 March 2013, the performance condition is achieved for 30% of an allotment of LTIP15 options and free shares. 10% of options and free shares are cancelled.

Movements

	Number of options	Weighted average exercise price per share in €	Number of free shares
Outstanding at 31 March 2011	**7,855,932**	**39.15**	**1,330,400**
Granted	1,369,180	26.39	804,040
Exercised	(192,417)	18.78	(121,830)
Cancelled	(304,858)	40.54	(91,680)
Outstanding at 31 March 2012	**8,727,837**	**37.42**	**1,920,930**
Granted	1,312,690	27.70	781,540
Exercised	(411,504)	12.95	(79,648)
Cancelled	(885,445)	42.32	(497,975)
Outstanding at 31 March 2013	**8,743,578**	**36.58**	**2,124,847**
of which exercisable	5,382,189		n/a

Valuation

	Plan n°11	**Plan n°11**	**Plan n°12**	**Plan n°12**	**Plan n°13**	**Plan n°13**	**Plan n°14**	**Plan n°14**	**Plan n°15**	**Plan n°15**
	stock options	free shares	stock options	free shares	stock options	free shares	stock options	free shares	stock options	free shares
Grant date	23/09/2008	23/09/2008	21/09/2009	21/09/2009	13/12/2010	13/12/2010	04/10/2011	04/10/2011	10/12/2012	10/12/2012
expected life (in years)	3.5	2.5 or 4.0	3.5	2.5 or 4.0	3.5	2.5 or 4.0	4.0	2.5 or 4.0	4.0	2.5 or 4.0
End of vesting period	22/09/2011	31/05/2011 or 22/09/2012	20/09/2012	31/05/2012 or 20/09/2013	12/12/2013	31/05/2013 or 12/12/2014	03/10/2014	31/05/2014 or 03/10/2015	09/12/2015	31/05/2015 or 09/12/2016
Adjusted exercise price (*) (in €)	66.47	n/a	49.98	n/a	33.14	n/a	26.39	n/a	27.70	n/a
Share price at grant date (in €)	65.10	65.10	50.35	50.35	35.40	35.40	23.82	23.82	29.77	29.77
Volatility	30%	n/a	30%	n/a	31%	n/a	31%	n/a	30%	n/a
Risk free interest rate	4.1%	4.2% or 4.4%	2.0%	1.6% or 2.3%	1.8%	1.4% or 2.0%	1.5%	1.1% or 1.5%	0.5%	0.2% or 0.5%
Dividend yield	1.3%	1.3%	1.3%	1.3%	3.1%	3.1%	5.0%	5.0%	3.4%	3.4%

(*) The exercise price corresponds to the average opening price of the shares during the twenty trading days preceding the day on wich the options were granted by the Board (no discount or surcharge).

The option valuation method follows a binomial mathematical model for plan 11 and a Black & Scholes model for plans 12, 13, 14 and 15, with exercise of the options anticipated and spread over the exercise period on a straight-line basis. The volatility factor applied is an average of CAC40 comparable companies' volatility at the grant date.

The Group booked a total expense of €15 million for the year ended 31 March 2013, and €11 million for the year ended 31 March 2012.

21.2 Stock appreciation rights ("SARs")

Key characteristics

	SARs n°7	SARs n°8	Notional SARs (1)	SARs n°9	SARs n°10
Grant date	01/12/2004	18/11/2005	16/12/2005	28/09/2006	25/09/2007
Vesting date	17/09/2007	27/09/2008	27/09/2008	28/09/2009	25/09/2010
Expiry date	16/09/2014	18/11/2015	26/09/2015	28/09/2016	24/09/2017
Number of beneficiaries	114	120	120	134	134
Adjusted number granted (2)	478,000	234,000	232,000	341,250	59,700
Adjusted number exercised since the origin	408,948	134,150	195,000	172,500	5,100
Adjusted number cancelled since the origin	69,052	43,100	37,000	53,125	4,200
Ajusted number outstanding at 31 March 2013	-	56,750	-	115,625	50,400
Adjusted exercise price (3) (in €)	8.60	22.45	17.88	36.05	73.42

(1) Notionnal SARs have been granted at an exercise price of €17.88 and are capped at €22.45.

(2) The number of SARs and their exercise prices have been adjusted as a result of transactions that have impacted the number of capital shares after grant dates.

(3) The exercise price corresponds to the average opening price of the shares during the twenty trading days preceding the day on wich the options were granted by the Board (no discount or surcharge).

Movements

	Number of SARs	Weighted average exercise price per share in €
Outstanding at 31 March 2011	**244,804**	**40.15**
Granted	-	-
Exercised	(16,169)	35.69
Cancelled	-	-
Outstanding at 31 March 2012	**228,635**	**40.52**
Granted	-	-
Exercised	(5,860)	16.82
Cancelled	-	-
Outstanding at 31 March 2013	**222,775**	**41.04**
of which exercisable	222,775	

Valuation

	SARs n°7	SARs n°8	Notional SARs (1)	SARs n°9	SARs n°10
Grant date	01/12/2004	18/11/2005	16/12/2005	28/09/2006	25/09/2007
expected life (in years)	4.0	4.0	4.0	4.0	4.0
End of vesting period	17/09/2007	27/09/2008	27/09/2008	28/09/2009	24/09/2010
Adjusted exercise price (2) (in €)	8.60	22.45	17.88	36.05	73.42
Share price at 31 March 2013 (in €)	31.75	31.75	31.75	31.75	31.75
Share price at 31 March 2012 (in €)	29.26	29.26	29.26	29.26	29.26
Volatility	23%	23%	23%	23%	23%
Risk free interest rate	1.8%	1.8%	1.8%	1.8%	1.8%
Dividend yield	2.2%	2.2%	2.2%	2.2%	2.2%

(1) SARs of the Notional plan have been granted at an exercise price of €17.88 and are capped at €22.45.
(2) The number of SARs and their exercise prices have been adjusted as a result of transactions that have impacted the number of capital shares after grant dates.

The value of SARs plans is measured at the grant date using a Black-Scholes option valuation model taking into account the terms and conditions according to which the instruments were granted. Until the liability is settled, it is measured at each reporting date with changes in fair value recognized in profit and loss.

The Group books a nil income for the year ended 31 March 2013, and €2 million for the year ended 31 March 2012.

Note 22. Provisions

(in € million)	At 31 March 2012	Additions	Releases	Applications	Changes in consolidation scope	Translation adjustments and other	At 31 March 2013
Warranties	759	416	(206)	(207)	(1)	6	767
Litigations and claims	655	337	(287)	(159)	(2)	(2)	542
Current provisions (1)	**1,414**	**753**	**(493)**	**(366)**	**(3)**	**4**	**1,309**
Tax risks and litigations (2)	155	68	(42)	(4)	5	(2)	180
Restructuring (3)	231	64	(24)	(86)	-	(3)	182
Other non-current provisions (4)	418	161	(234)	(30)	-	3	318
Non-current provisions	**804**	**293**	**(300)**	**(120)**	**5**	**(2)**	**680**
Total provisions	**2,218**	**1,046**	**(793)**	**(486)**	**2**	**2**	**1,989**

(in € million)	At 31 March 2011	Additions	Releases	Applications	Business combination	Translation adjustments and other	At 31 March 2012
Warranties	721	343	(138)	(227)	51	9	759
Litigations and claims	666	329	(205)	(156)	37	(16)	655
Current provisions (1)	**1,387**	**672**	**(343)**	**(383)**	**88**	**(7)**	**1,414**
Tax risks and litigations (2)	139	24	(9)	(19)	26	(6)	155
Restructuring (3)	361	41	(35)	(138)	-	2	231
Other non-current provisions (4)	595	103	(86)	(140)	(60)	6	418
Non-current provisions	**1,095**	**168**	**(130)**	**(297)**	**(34)**	**2**	**804**
Total provisions	**2,482**	**840**	**(473)**	**(680)**	**54**	**(5)**	**2,218**

(1) Current provisions relate to warranties, litigations and claims on completed contracts.

(2) In relation to tax risks, the Group tax filings are subject to audit by tax authorities in most jurisdictions in which the Group operates. These audits may result in assessment of additional taxes that are subsequently resolved with the authorities or potentially through the courts. The Group believes that it has strong arguments against the questions being raised, that it would pursue all legal remedies to avoid an unfavourable outcome and that it has adequately provided for any risk that could result from those proceedings where it is probable that it will pay some amounts.

(3) Restructuring derive from the adaptation of the Group's footprint in order to take into account the lower demand in developed countries (Europe and USA) and the situation of global overcapacity faced in some segments.

(4) Other non-current provisions mainly relate to guarantees delivered in connection with disposals, employee litigations, commercial disputes and environmental obligations. Environmental provisions amount to €37 million at 31 March 2013 and €38 million at 31 March 2012.

Note 23. Post-employment and other long-term defined employee benefits

In addition to mandatory social insurance plans, the Group has introduced a number of retirement plans (€5 621 million euros as of 31 March 2013) and other defined benefit post-employment plans (€ 351 million as of 31 March 2013) which include end-of-service benefits in France and retiree healthcare plans mainly in the United States. Other long-term benefits mainly correspond to jubilees in France and Germany (€63 million as of 31 March 2013).

Post-employment and long-term defined employee benefits are mainly in the United Kingdom, Switzerland, Germany and in the United States.

23.1 Defined benefit obligations

In the United Kingdom, there are three various defined benefit pension plans covering different populations. The largest plan, which accounts for 90% of the defined benefit obligations in the country, provides a pension, in the form of an indexed annuity based on the employee's final pensionable earnings, as well as benefits payable upon death and serious ill-health. This plan was closed to new members as of April 5, 2006. The two other plans also provide a pension in the form of an indexed annuity and are scheduled to be closed to new members as of May 1, 2013. New hires are ordinarily offered the opportunity to participate in a defined contribution group pension plan ("GPP"), a group life assurance plan and an income replacement scheme. These arrangements will also be used to meet the auto-enrollment requirements which affect Alstom in the United Kingdom from 1 May 2013.

In Switzerland, the pension plans allow members to accumulate retirement funds with interests in a dedicated account during their employment life. The account value is converted into a pension, in the form of an annuity or a lump sum payment. The plans also include benefits payable upon death and disability.

In Germany, the plans provide coverage for pension, death and disability. In the past, the pension was accrued in the form of an annuity. The plans were deeply modified for future accruals as of April 1, 2003 for the employees of the Grid sector, as of April 1, 2009 for the employees of the Thermal Power and Renewable Thermal sectors and as of April 1, 2010 for the employees of the Transport sector to remove most defined benefit pension risks. The plans now continue to be accounted as defined benefit plans under IAS19 but with much lower risks for the company. With respect to employee contributions, there are remitted into defined contributions plans.

In the United States of America, Alstom sponsors five qualified defined benefit pension plans and two post-retirement medical plans. Two of the qualified pension plans, namely a cash balance plan and a final average earnings plan, which represent 63% of the defined benefit obligations in the country, were closed to new members as of September 1, 2005, and further closed to all service accruals respectively as of September 30, 2010 and December 31, 2010. Employees now participate in a defined contribution 401(k) plan. The post-retirement medical plans were closed to new hires in 2002 and 2003 with the exception of a small number of unionized employees.

(in € million)	At 31 March 2013	European Union	Other European countries	Northern America	Others
Defined benefit obligations at beginning of year	**(5,521)**	**(3,361)**	**(1,380)**	**(691)**	**(89)**
Service cost	(81)	(32)	(38)	(6)	(5)
Plan participant contributions	(38)	(3)	(34)	(1)	-
Interest cost	(238)	(164)	(35)	(33)	(6)
Plan amendments	3	-	1	2	-
Business combinations / disposals	-	-	-	(1)	1
Curtailments	8	-	8	-	-
Settlements	14	1	12	1	-
Actuarial gains (losses) - due to experience	(1)	31	(28)	-	(4)
Actuarial gains (losses) - due to changes in assumptions	(522)	(355)	(102)	(60)	(5)
Benefits paid	313	184	65	58	6
Change in scope	-	-	-	-	-
Foreign currency translation and others	28	36	17	(27)	2
Defined benefit obligations at end of year	**(6,035)**	**(3,663)**	**(1,514)**	**(758)**	**(100)**
Of which:					
Funded schemes	(5,255)	(3,042)	(1,501)	(669)	(43)
Unfunded schemes	(780)	(621)	(13)	(89)	(57)

(in € million)	At 31 March 2012	European Union	Other European countries	Northern America	Others
Defined benefit obligations at beginning of year	**(4,892)**	**(2,964)**	**(1,228)**	**(637)**	**(63)**
Service cost	(83)	(29)	(44)	(4)	(6)
Plan participant contributions	(37)	(3)	(33)	(1)	-
Interest cost	(237)	(157)	(42)	(34)	(5)
Plan amendments	(4)	(1)	(6)	2	1
Business combinations / disposals	(15)	(7)	-	-	(8)
Curtailments	-	-	-	-	-
Settlements	(1)	-	-	-	(1)
Actuarial gains (losses) - due to experience	(35)	(33)	(1)	(1)	-
Actuarial gains (losses) - due to changes in assumptions	(263)	(216)	(10)	(34)	(3)
Benefits paid	303	164	83	50	6
Change in scope	-	-	-	-	-
Foreign currency translation and others	(257)	(126)	(99)	(32)	-
Defined benefit obligations at end of year	**(5,521)**	**(3,372)**	**(1,380)**	**(690)**	**(79)**
Of which:					
Funded schemes	(4,848)	(2,834)	(1,368)	(609)	(37)
Unfunded schemes	(673)	(538)	(12)	(81)	(42)

23.2 Plan assets

For defined benefit plans, plan assets have been progressively built up by contributions from the employer and the employees, primarily in the United Kingdom, in Switzerland, in the United States and Germany.

The fair value of plan assets is deducted from the Group's defined benefit obligation, as estimated using the projected unit credit method, in order to calculate the unfunded obligation to be covered by a provision.

(in € million)	At 31 March 2013	European Union	Other European countries	Northern America	Others
Fair value of plan assets at beginning of year	**4,097**	**2,237**	**1,353**	**477**	**30**
Expected return on assets	211	132	50	27	2
Actuarial gains (losses) on assets due to experience	215	128	72	14	1
Company contributions	127	41	55	27	4
Plan participant contributions	38	3	34	1	-
Business combinations /disposals	-	-	-	-	-
Settlements	(13)	-	(13)	-	-
Benefits paid from plan assets	(260)	(142)	(63)	(51)	(4)
Change in scope	-	-	-	-	-
Foreign currency translation and others	(33)	(32)	(17)	19	(3)
Fair value of plan assets at end of year	**4,382**	**2,367**	**1,471**	**514**	**30**

(in € million)	At 31 March 2012	European Union	Other European countries	Northern America	Others
Fair value of plan assets at beginning of year	**3,763**	**2,065**	**1,219**	**452**	**27**
Expected return on assets	233	140	61	30	2
Actuarial gains (losses) on assets due to experience	(26)	9	(30)	(3)	(2)
Company contributions	112	36	56	16	4
Plan participant contributions	37	3	33	1	
Business combinations /disposals	-				
Settlements	-	-		-	
Benefits paid from plan assets	(247)	(125)	(82)	(41)	1
Change in scope	-				
Foreign currency translation and others	225	106	96	25	(2)
Fair value of plan assets at end of year	**4,097**	**2,234**	**1,353**	**480**	**30**

23.3 Reconciliation of funded status of the plans with assets and liabilities recognised in the balance sheet

(in € million)	At 31 March 2013	At 31 March 2012
Funded status of the plans	**(1,653)**	**(1,424)**
Unrecognised past service costs (gains)	22	24
Impact of asset ceiling	(1)	(5)
Net of accrued and prepaid benefit costs after asset ceiling	**(1,632)**	**(1,405)**
Of which:		
Accrued pension and other employee benefit costs	***(1,642)***	***(1,417)***
Prepaid pension and other employee benefit costs	***10***	***12***

The net asset of €10 million mainly related to a pension scheme in the United Kingdom is supported by appropriate refund expectations, as requested by IFRIC 14.

The following chart displays the evolution over the current fiscal year and the previous four fiscal years of the present value of the defined benefit obligation, the fair value of the plan assets, the deficit and the experience adjustments:

(en millions d'€)	At 31 March 2013	At 31 March 2012	At 31 March 2011	At 31 March 2010	At 31 March 2009
Defined benefit obligation	(6,035)	(5,521)	(4,892)	(4,251)	(3,668)
Fair value of plan assets	4,382	4,097	3,763	3,334	2,716
Funded status of the plans	(1,653)	(1,424)	(1,129)	(917)	(952)
Unrecognised past service costs (gains)	22	24	25	(12)	(10)
Impact of asset ceiling	(1)	(5)	(13)	(6)	(4)
Net of accrued and prepaid benefit costs after asset ceiling	(1,632)	(1,405)	(1,117)	(935)	(966)
Experience adjustments to:					
- plan liabilities	(1)	(35)	(25)	(16)	15
- plan assets	215	(26)	(27)	405	(663)

23.4 Changes of accrued pensions and other employee benefits recognised in comprehensive income

Actuarial gains and losses and asset ceiling arising from post-employment defined benefit plans have been recognised in other comprehensive income as follows:

(in € million)	At 31 March 2013	At 31 March 2012
Opening balance (net loss)	**(1,863)**	**(1,546)**
Actuarial gains and losses generated during the period	(300)	(324)
Asset ceiling generated during the period	5	7
Closing balance (net loss)	**(2,158)**	**(1,863)**

23.5 Components of plan assets

(in € million)	At 31 March 2013	%	European Union	Other European countries	Northern America
Equities	1,501	34	36	31	39
Bonds	2,384	55	55	52	59
Properties	405	9	8	15	1
Others	92	2	1	2	1
Total	**4,382**	**100**	**100**	**100**	**100**

(in € million)	At 31 March 2012	%	European Union	Other European countries	Northern America
Equities	1,431	35	35	33	40
Bonds	2,166	53	55	48	59
Properties	361	9	7	14	1
Others	139	3	3	5	0
Total	**4,097**	**100**	**100**	**100**	**100**

Plan assets for each individual plan are invested in accordance with statutory regulations, pension plan rules, and decisions of pension fund trustees. At 31 March 2013, plan assets do not include any of the Group's capital stock.

23.6 Assumptions (weighted average rates)

Actuarial assumptions used vary by country and type of plan. Compensation increase assumptions are determined at business unit level and reviewed centrally.

(in %)	At 31 March 2013	European Union	Other European countries	Northern America	Others
Discount rate	3.61	4.10	2.18	3.90	5.99
Rate of compensation increase	2.88	3.42	1.46	3.01	3.82

(in %)	At 31 March 2012	European Union	Other European countries	Northern America	Others
Discount rate	4.30	4.87	2.50	4.93	5.51
Rate of compensation increase	2.92	3.46	1.54	2.97	2.98

For the year ended 31 March 2013, the effective return on assets was 10.5%.

Discount rate

In accordance with IAS 19 principles, discount rates are set each year by reference to the market yields on high quality corporate bonds denominated in the relevant currency. In countries where there is no deep market in such bonds, discount rates are set by reference to the yields on government bonds. The required information is sourced from the company's actuarial advisors and from market quotations and indices.

Assumptions related to the post-employment healthcare obligation

The healthcare trend rate is assumed to be 7.5% in the year ended 31 March 2013 and reduces thereafter to an ultimate rate of 5.4% from 2018 onwards.

Sensitivity analysis

A 25 bp increase or decrease in the main assumptions would have the following impacts on the defined benefit obligation:

(en %)	At 31 March 2013
Impact of a 25bp increase or decrease in the discount rate	-3,28% / 3.46%
Impact of a 25bp increase or decrease in the rate of compensation increase	+0,18% / -0,23%

23.7 Analysis of post-employment and other long-term defined benefit expense

(in € million)	**Year ended 31 March 2013**	**European Union**	**Other European countries**	**Northern America**	**Others**
Service cost	(81)	(32)	(38)	(6)	(5)
Defined contributions *(*)*	(191)	(120)	(1)	(55)	(15)
Income from operations	**(272)**	**(152)**	**(39)**	**(61)**	**(20)**
Actuarial gains/losses on other long-term benefits	(8)	(7)	(1)	-	-
Amortisation of unrecognised past service gain (cost)	-	(3)	1	2	-
Curtailments/settlements	8	-	7	1	-
Other income (expenses)	**-**	**(10)**	**7**	**3**	**-**
Interest cost	(238)	(164)	(35)	(33)	(6)
Expected return on plan assets	211	132	50	27	2
Financial income (expenses)	**(27)**	**(32)**	**15**	**(6)**	**(4)**
Total benefit expense	**(299)**	**(194)**	**(17)**	**(64)**	**(24)**

(in € million)	**Year ended 31 March 2012**	**European Union**	**Other European countries**	**Northern America**	**Others**
Service cost	(83)	(29)	(44)	(4)	(6)
Defined contributions *(*)*	(181)	(114)	(1)	(51)	(15)
Income from operations	**(264)**	**(143)**	**(45)**	**(55)**	**(21)**
Actuarial gains/losses on other long-term benefits	1	1	-	-	-
Amortisation of unrecognised past service gain (cost)	(5)	(3)	(6)	3	1
Curtailments/settlements	(1)	-	-	-	(1)
Other income (expenses)	**(5)**	**(2)**	**(6)**	**3**	**-**
Interest cost	(237)	(157)	(42)	(34)	(4)
Expected return on plan assets	233	140	61	30	2
Financial income (expenses)	**(4)**	**(17)**	**19**	**(4)**	**(2)**
Total benefit expense	**(273)**	**(162)**	**(32)**	**(56)**	**(23)**

(*) Including an expense of € 19 million related to multi-employer contributions accounted for as defined contribution plans for the year ended 31 March 2013 (€15 million for the year ended 31 March 2012).

23.8 Cash flows

In accordance with local practice and regulations, the company pays contributions to the funded schemes it sponsors and benefits to the members of unfunded plans.

Total cash spent for defined benefit plans in the year ended 31 March 2013 amounted to €180 million and covers both regular contributions for accruing service and recovery contributions in case of funding shortfall. Total cash spent for defined contribution plans in the year ended 31 March 2013 amounted to €191 million.

The company's best estimate of contributions in the year ending 31 March 2014 are respectively €210 million and €190 million for defined benefit and defined contribution plans.

Note 24. Financial debt

Carrying amount (in € million)	**At 31 March 2013**	**At 31 March 2012**
Bonds	4,141	3,795
Other borrowing facilities	232	415
Put options and earn-out on acquired entities (*)	46	229
Derivatives relating to financing activities	18	17
Accrued interests	43	41
Borrowings	**4,480**	**4,497**
Non-current	*4,197*	*3,863*
Current	*283*	*634*
Obligations under finance leases	108	125
Other obligations under long-term rental	367	400
Obligations under finance leases	**475**	**525**
Non-current	*433*	*477*
Current	*42*	*48*
Total financial debt	**4,955**	**5,022**

(*) includes, at 31 March 2012, the remaining price of TMH's acquisition paid in October 2012 (see Note 3)

The following table summarises the significant components of the Group's bonds:

	Nominal value (in € million)	**Maturity date**	**Nominal interest rate**	**Effective interest rate**
Alstom September 2014	743	23/09/2014	4.00%	3.89%
Alstom March 2015	60	09/03/2015	4.25%	4.47%
Alstom October 2015	500	05/10/2015	2.88%	2.98%
Alstom March 2016	500	02/03/2016	3.87%	4.05%
Alstom February 2017	750	01/02/2017	4.13%	4.25%
Alstom October 2017	350	11/10/2017	2.25%	2.44%
Alstom October 2018	500	05/10/2018	3.63%	3.71%
Alstom March 2020	750	18/03/2020	4.50%	4.58%

As of 4 October 2012, under its Euro Medium Term Note Programme listed in Luxembourg, the Company launched a new bond issue for an amount of €350 million. It bears an annual coupon of 2.25% and mature in October 2017.

The other obligations under long-term rental represent liabilities related to lease obligations on trains and associated equipment (see Note 13 and 29).

Note 25. Financial instruments and financial risk management

25.1 Financial instruments reported in the financial statements

The Group’s financial liabilities comprise borrowings, trade and other payables. The main purpose of these financial liabilities is to raise funds for the Group’s operations.
The Group has loans, trade and other receivables, and cash and cash equivalents that are directly derived from its operations.

The Group is exposed to currency risk, interest rate risk, credit risk and liquidity risk.

The main valuation methods applied are as follows:

- borrowings, when unhedged, are stated at amortised cost, determined by the effective interest rate method,
- the fair value of cash, cash equivalents, trade receivables and trade payables is considered as being equivalent to carrying value, due to their short maturities,
- the fair value of the financial debt is estimated based on either quoted market prices for traded instruments or current rates offered to the Group for debt of the same maturity.

The fair value of derivative instruments is the estimated amount that the Group would receive or pay to settle the related contracts, valued on the basis of relevant yield curves and foreign exchange rates at closing date.

Year ended 31 March 2013

Balance sheet positions at 31 March 2013

			Carrying amount of financial instruments by categories (*)					Fair value of items classified as financial instruments			
At 31 March 2013 (in € million)	**Balance sheet carrying amount**	**Carrying amount not defined as financial instruments**	FV P/L	AFS	LRL at amortised cost	DER	**Total**	Listed prices	Internal model based on observables factors	Internal model not based on observables factors	**Total**
Associates and non consolidated investments	**698**	**597**	-	101	-	-	**101**	-	100	-	**100**
Other non-current assets	**515**	**10**	-	-	505	-	**505**	-	123	382	**505**
Trade receivables	**5,285**	**-**	-	-	5,285	-	**5,285**	-	5,285	-	**5,285**
Other current operating assets	**3,328**	**1,990**	590	-	415	333	**1,338**	-	1,338	-	**1,338**
Marketable securities and other current financial assets	**36**	**-**	1	-	-	35	**36**	-	36	-	**36**
Cash and cash equivalents	**2,195**	**-**	2,195	-	-	-	**2,195**	-	2,195	-	**2,195**
Assets	**12,057**	**2,597**	**2,786**	**101**	**6,205**	**368**	**9,460**	**-**	**9,077**	**382**	**9,459**
Non-current borrowings	**4,197**	**-**	-	-	4,197	-	**4,197**	-	4,489	-	**4,489**
Non-current obligations under finance leases	**433**	**-**	-	-	433	-	**433**	-	433	-	**433**
Current borrowings	**283**	**-**	-	-	265	18	**283**	-	283	-	**283**
Current obligations under finance leases	**42**	**-**	-	-	42	-	**42**	-	42	-	**42**
Trade payables	**4,041**	**-**	-	-	4,041	-	**4,041**	-	4,041	-	**4,041**
Other current operating liabilities	**3,688**	**1,778**	215	-	1,332	363	**1,910**	-	1,910	-	**1,910**
Liabilities	**12,684**	**1,778**	**215**	**-**	**10,310**	**381**	**10,906**	**-**	**11,198**	**-**	**11,198**

(*) FV P/L short for fair value through profit and loss; AFS short for available-for-sale assets; LRL short for loans, receivables and liabilities and DER short for derivative instruments.

Financial income and expense arising from financial instruments for period ended 31 March 2013

(in € million)	FV P/L	AFS	LRL at amortised cost inc. related derivatives	**Total**
Interests	-	-	(165)	**(165)**
Interest income	*-*	*-*	*29*	*29*
Interest expense	*-*	*-*	*(194)*	*(194)*
Dividends	-	4	-	**4**
Impairment/loss from subsequent measurement	-	-	-	**-**
Gain on disposal	-	-	-	**-**
Foreign currency and other	-	-	(34)	**(34)**
Net income/expense for the year ended 31 March 2013	**-**	**4**	**(199)**	**(195)**

The amount reported as "foreign currency and other" is mainly representative of forward points attached to transactions related to financing activities (See Note 2.3.9) and bank fees (see Note 7).

Income from operations arising from financial instruments for the period ended 31 March 2013

Net foreign currency gains and losses recorded within income from operations are positive by €86 million for the year ended 31 March 2013.
They are made up of two components:
- forward points attached to hedging transactions qualified for hedge accounting,
- variation of fair value of hedging instruments and not qualifying for hedge accounting.

ALSTOM

Year ended 31 March 2012

Balance sheet positions at 31 March 2012

			Carrying amount of financial instruments by categories (*)					Fair value of items classified as financial instruments			
At 31 March 2012 (in € million)	**Balance sheet carrying amount**	**Carrying amount not defined as financial instruments**	FV P/L	AFS	LRL at amortised cost	DER	**Total**	Listed prices	Internal model based on observables factors	Internal model not based on observables factors	**Total**
Associates and non consolidated investments	**531**	**377**	-	154	-	-	**154**	-	154	-	**154**
Other non-current assets	**545**	**12**	-	-	533	-	**533**	-	107	426	**533**
Trade receivables	**5,692**	**-**	-	-	5,692	-	**5,692**	-	5,692	-	**5,692**
Other current operating assets	**3,557**	**2,180**	647	-	447	283	**1,377**	-	1,377	-	**1,377**
Marketable securities and other current financial assets	**13**	**-**	3	-	-	10	**13**	-	13	-	**13**
Cash and cash equivalents	**2,091**	**-**	2,091	-	-	-	**2,091**	-	2,091	-	**2,091**
Assets	**12,429**	**2,569**	**2,741**	**154**	**6,672**	**293**	**9,860**	**-**	**9,434**	**426**	**9,860**
Non-current borrowings	**3,863**	**-**	-	-	3,863	-	**3,863**	-	4,042	-	**4,042**
Non-current obligations under finance leases	**477**	**-**	-	-	477	-	**477**	-	477	-	**477**
Current borrowings	**634**	**-**	-	-	617	17	**634**	-	634	-	**634**
Current obligations under finance leases	**48**	**-**	-	-	48	-	**48**	-	48	-	**48**
Trade payables	**4,080**	**-**	-	-	4,080	-	**4,080**	-	4,080	-	**4,080**
Other current operating liabilities	**4,192**	**1,933**	253	-	1,364	642	**2,259**	-	2,259	-	**2,259**
Liabilities	**13,294**	**1,933**	**253**	**-**	**10,449**	**659**	**11,361**	**-**	**11,540**	**-**	**11,540**

(*) FV P/L short for fair value through profit and loss; AFS short for available-for-sale assets; LRL short for loans, receivables and liabilities and DER short for derivative instruments.

Financial income and expense arising from financial instruments for period ended 31 March 2012

(in € million)	FV P/L	AFS	LRL at amortised cost inc. related derivatives	**Total**
Interests	1	-	(143)	**(142)**
Interest income	*1*	*-*	*36*	*37*
Interest expense	*-*	*-*	*(179)*	*(179)*
Dividends	-	5	-	**5**
Impairment/loss from subsequent measurement	-	(1)	-	**(1)**
Gain on disposal	-	-	-	**-**
Foreign currency and other	-	-	(35)	**(35)**
Net income/expense for the year ended 31 March 2012	**1**	**4**	**(178)**	**(173)**

The amount reported as "foreign currency and other" is mainly representative of forward points attached to transactions related to financing activities (See Note 2.3.9) and bank fees (see Note 7).

Income from operations arising from financial instruments for the period ended 31 March 2012

Net foreign currency gains and losses recorded within income from operations are positive by €47 million for the year ended 31 March 2012. They are comprised essentially of forward points at mark to market of the hedging instruments.

25.2 Currency risk management

Financial debt

The nominal value of the financial debt split by currency is as follows:

(in € million)	At 31 March 2013	At 31 March 2012
Euro	4,325	4,224
Chinese Yuan	72	83
Brazilian Real	67	144
British Pound	413	425
US Dollar	14	12
Other currencies	79	149
Financial debt in nominal value	**4,970**	**5,037**

The debt in GBP essentially originates from a long-term lease scheme of trains, involving London Underground. The related €367 million debt denominated in GBP is counter-balanced by long-term receivables having the same maturity and also denominated in GBP that are recognised as non-current assets (see Notes 13, 24 and 29).

Operations

In the course of its operations, the Group is exposed to currency risk arising from tenders submitted in foreign currency, awarded contracts and any future cash out transactions denominated in foreign currency. Main currencies triggering a significant exposure for the year ended 31 March 2013 are the Swiss Franc and the US dollar.

During the tender period, depending on the probability to obtain the project and on market conditions, the Group can hedge a portion of its tenders using options or export insurance contracts when possible. Once the contract is signed, forward exchange contracts are used to hedge the actual exposure during the life of the contract (either as the only hedging instruments or as a complement to existing export insurance contracts).

The Group requires all of its operating units to use forward currency contracts to eliminate the currency exposure on any individual sale or purchase transaction in excess of €100,000. Forward currency contracts must be denominated in the same currency as the hedged item. It is the Group’s policy to negotiate the terms of hedge derivatives to match the terms of hedged items to maximise hedge effectiveness.

Derivative instruments hedging foreign currency risk are recognised at their fair value on the balance sheet as follows:

	At 31 March 2013		At 31 March 2012	
(in € million)	Assets	Liabilities	Assets	Liabilities
Derivatives qualifying for fair value hedge	346	367	290	637
Derivatives qualifying for cash flow hedge	20	11	1	24
Derivatives qualifying for net investment hedge	-	-	-	-
Derivatives not qualifying for hedge accounting	2	3	2	1
Total	**368**	**381**	**293**	**662**

The fair value of those instruments is the estimated amount that the Group would receive or pay to settle the related contracts, valued on the basis of relevant yield curves and foreign exchange rates at closing date.

High volatility of foreign exchange rates during the periods ended 31 March 2013 and 31 March 2012 explains the significant amount of fair value of derivative instruments (either positive or negative). For instruments that qualify for fair value hedge accounting, any change in fair value is mostly offset by the re-measurement of the underlying exposure (either on balance sheet or off-balance sheet).

The following table shows the sensitivity of the Group's pre-tax income to a change in the US dollar and Swiss Franc exchange rates. The effects on pre-tax income arise from derivative instruments not qualifying for hedge accounting while the effect on income and expense directly recognised in equity is due to the measurement of the effective portion of derivative instruments qualifying for cash flow hedge accounting.

	USD rate			CHF rate		
	Variation	Effect on pre-tax income	Effect on income and expense directly recognised in equity	Variation	Effect on pre-tax income	Effect on income and expense directly recognised in equity
Year ended 31 March 2013	10%	-	-	5%	-	(2)
	-10%	-	-	-5%	-	2
Year ended 31 March 2012	10%	3	-	5%	-	8
	-10%	(3)	-	-5%	-	(8)

The effective portion of instruments qualifying for cash flow hedge accounting reclassified from equity to profit or loss during the year ended 31 March 2013 is negative by €6 million.

25.3. Interest rate risk management

The Group has not implemented an active interest rate risk management policy. However under the supervision of the Executive Committee, it may enter into transactions in order to hedge its interest rate risk on a case-by-case basis according to market opportunities.

Carrying amount (in € million)	**At 31 March 2013**	**At 31 March 2012**
Financial assets at floating rate	2,264	2,140
Financial assets at fixed rate	409	465
Financial assets bearing interests	**2,673**	**2,605**
Financial debt at floating rate	47	102
Financial debt at fixed rate, put options and earn-out on acquired entities	4,908	4,920
Financial debt	**4,955**	**5,022**
Total position at floating rate before swaps	2,311	2,242
Total position at fixed rate before swaps	5,317	5,385
Total position before hedging	**7,628**	**7,627**
Total position at floating rate after swaps	2,311	2,242
Total position at fixed rate after swaps	5,317	5,385
Total position after hedging	**7,628**	**7,627**

Sensitivity is analysed based on the group's net cash position after hedging at 31 March 2013, assuming that it remains constant over one year.

In absence of instruments hedging the interest risk, the effects of increases or decreases in market rates are symmetrical: a rise of 0.1% would increase the net interest income by €3 million while a fall of 0.1% would decrease it by the same amount.

25.4. Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a loss. The Group is exposed to credit risk on its operating activities (primarily for trade receivables) and from its financing activities, including deposits, foreign currency hedging instruments and other financial instruments with banks and financial institutions.

Risk related to customers

The Group believes that the risk of a counterpart failing to perform as contracted, which could have a significant impact on the Group's financial statements or results of operations, is limited because the Group seeks to ensure that customers generally have strong credit profiles or adequate financing to meet their project obligations.

In specific cases, the Group may use export credit insurance policies which may hedge up to 90% of the credit risk on certain contracts.

Risk related to other financial assets

The Group's exposure to credit risk related to other financial assets arises from default of the counterpart, with a maximum exposure equal to the carrying amount of those instruments. The financial instruments are taken out with over 30 different counterparties and the risk is therefore highly diluted.

Risk related to cash and cash equivalents

Credit risk from balances with banks and financial institutions is managed by Group treasury in accordance with the Group's policy. At 31 March 2013 and at 31 March 2012, as part of the central treasury management, cash and cash equivalents are invested entirely in deposits with bank counterparts of first rank noted "Investment Grade".

The Group's parent company has access to some cash held by wholly-owned subsidiaries through the payment of dividends or pursuant to intercompany loan arrangements. However local constraints can delay or restrict this access. Furthermore, while the Group's parent company has the power to control decisions of subsidiaries of which it is the majority owner, its subsidiaries are distinct legal entities and their payment of dividends and granting of loans, advances and other payments to the parent company may be subject to legal or contractual restrictions, be contingent upon their earnings or be subject to business or other constraints. These limitations include local financial assistance rules and corporate benefit laws.

The Group's policy is to centralise liquidity of subsidiaries at the parent company's level when possible. Restricted cash and cash equivalents available at subsidiary level were €490 million and €350 million at 31 March 2013 and 31 March 2012, respectively.

25.5. Liquidity risk management

Financial covenants

At 31 March 2012, to increase its liquidity, the Group completed a €1,350 million revolving credit facility fully undrawn maturing in December 2016. This facility is subject to the following financial covenants, based on consolidated data:

Covenants	Minimum Interest Cover	Maximum total debt (€m)	Maximum total net debt leverage
	(a)	(b)	(c)
	3	5,000	3.6

(a) Ratio of EBITDA (Earnings Before Interest and Tax plus Depreciation and Amortisation) to net interest expense (excluding interest related to obligations under finance lease). It amounts to 11.2 at year end 31 March 2013 (12.5 at year end 31 March 2012).

(b) Total debt corresponds to borrowings, i.e. total financial debt less finance lease obligations. This covenant ceases to apply since the Group has an “Investment grade” rating.

(c) Ratio of total net debt (Total debt less short-term investments or trading investments and cash and cash equivalents) to EBITDA. The net debt leverage as at 31 March 2013 is 1.3 (1.4 at 31 March 2012).

Cash Flow

The Group’s objective is to maintain a strong liquidity. A revolving cash planning tool is used to monitor the Group's liquidity needs.

The following tables show the remaining maturities of all financial assets and liabilities held at 31 March 2013 and 31 March 2012.

Planning data for future new assets and liabilities are not reported. Amounts in foreign currency are translated at the closing rate. The variable interest payments are calculated using the last interest rates available at the closing date. Assets and liabilities that can be repaid at any time are always assigned to the earliest possible time period.

Financial instruments held at 31 March 2013

Cash flow arising from instruments included in net cash/(debt) at 31 March 2013

		2014		2015		2016-2018		2019 and thereafter	
Cash flow for the years ended 31 March (in € million)	Carrying amount	Interests	Repayment	Interests	Repayment	Interests	Repayment	Interests	Repayment
Other non-current assets	382	26	25	24	28	50	315	-	14
Marketable securities and other current financial assets	36	-	36	-	-	-	-	-	-
Cash and cash equivalents	2,195	2	2,195	-	-	-	-	-	-
Assets	**2,613**	**28**	**2,256**	**24**	**28**	**50**	**315**	**-**	**14**
Non-current borrowings	(4,197)	-	-	(144)	(805)	(264)	(2,120)	(79)	(1,272)
Non-current obligations under finance leases	(433)	-	-	(28)	(44)	(57)	(137)	(3)	(252)
Current borrowings	(283)	(170)	(283)	-	-	-	-	-	-
Current obligations under finance leases	(42)	(31)	(42)	-	-	-	-	-	-
Liabilities	**(4,955)**	**(201)**	**(325)**	**(172)**	**(849)**	**(321)**	**(2,257)**	**(82)**	**(1,524)**
Net cash/(debt)	**(2,342)**	**(173)**	**1,931**	**(148)**	**(821)**	**(271)**	**(1,942)**	**(82)**	**(1,510)**

Cash flow arising from operating derivatives at 31 March 2013

		2014		2015		2016-2018		2019 and thereafter	
Cash flow for the years ended 31 March (in € million)	Carrying amount	Interests	Repayment	Interests	Repayment	Interests	Repayment	Interests	Repayment
Other current operating assets	333	-	160	-	53	-	69	-	51
Assets	**333**	**-**	**160**	**-**	**53**	**-**	**69**	**-**	**51**
Other current operating liabilities	(363)	-	(187)	-	(89)	-	(76)	-	(11)
Liabilities	**(363)**	**-**	**(187)**	**-**	**(89)**	**-**	**(76)**	**-**	**(11)**
Derivatives	**(30)**	**-**	**(27)**	**-**	**(36)**	**-**	**(7)**	**-**	**40**

Cash flow arising from instruments included in other financial assets and liabilities at 31 March 2013

		2014		2015		2016-2018		2019 and thereafter	
Cash flow for the years ended 31 March (in € million)	Carrying amount	Interests	Repayment	Interests	Repayment	Interests	Repayment	Interests	Repayment
Other investments	101	-	-	-	-	-	-	-	101
Other non-current assets	123	-	75	-	1	-	5	-	42
Trade receivables	5,285	-	5,285	-	-	-	-	-	-
Other current operating assets	1,005	-	1,005	-	-	-	-	-	-
Assets	**6,514**	**-**	**6,365**	**-**	**1**	**-**	**5**	**-**	**143**
Trade payables	(4,041)	-	(4,041)	-	-	-	-	-	-
Other current operating liabilities	(1,547)	-	(1,547)	-	-	-	-	-	-
Liabilities	**(5,588)**	**-**	**(5,588)**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial assets and liabilities	**926**	**-**	**777**	**-**	**1**	**-**	**5**	**-**	**143**

Financial instruments held at 31 March 2012

Cash flow arising from instruments included in net cash/(debt) at 31 March 2012

		2013		2014		2015-2017		2018 and thereafter	
Cash flow for the years ended 31 March (in € million)	**Carrying amount**	**Interests**	**Repayment**	**Interests**	**Repayment**	**Interests**	**Repayment**	**Interests**	**Repayment**
Other non-current assets	426	28	28	26	25	66	97	9	276
Marketable securities and other current financial assets	13	-	13	-	-	-	-	-	-
Cash and cash equivalents	2,091	8	2,091	-	-	-	-	-	-
Assets	**2,530**	**36**	**2,132**	**26**	**25**	**66**	**97**	**9**	**276**
Non-current borrowings	(3,863)	-	-	(152)	(21)	(285)	(2,571)	(79)	(1,271)
Non-current obligations under finance leases	(477)	-	-	(31)	(41)	(76)	(150)	(13)	(286)
Current borrowings	(634)	(165)	(634)	-	-	-	-	-	-
Current obligations under finance leases	(48)	(33)	(48)	-	-	-	-	-	-
Liabilities	**(5,022)**	**(198)**	**(682)**	**(183)**	**(62)**	**(361)**	**(2,721)**	**(92)**	**(1,557)**
Net cash/(debt)	**(2,492)**	**(162)**	**1,450**	**(157)**	**(37)**	**(295)**	**(2,624)**	**(83)**	**(1,281)**

Cash flow arising from operating derivatives at 31 March 2012

		2013		2014		2015-2017		2018 and thereafter	
Cash flow for the years ended 31 March (in € million)	**Carrying amount**	**Interests**	**Repayment**	**Interests**	**Repayment**	**Interests**	**Repayment**	**Interests**	**Repayment**
Other current operating assets	283	-	147	-	76	-	40	-	20
Assets	**283**	**-**	**147**	**-**	**76**	**-**	**40**	**-**	**20**
Other current operating liabilities	(642)	-	(422)	-	(92)	-	(114)	-	(14)
Liabilities	**(642)**	**-**	**(422)**	**-**	**(92)**	**-**	**(114)**	**-**	**(14)**
Derivatives	**(359)**	**-**	**(275)**	**-**	**(16)**	**-**	**(74)**	**-**	**6**

Cash flow arising from instruments included in other financial assets and liabilities at 31 March 2012

		2013		2014		2015-2017		2018 and thereafter	
Cash flow for the years ended 31 March (in € million)	**Carrying amount**	**Interests**	**Repayment**	**Interests**	**Repayment**	**Interests**	**Repayment**	**Interests**	**Repayment**
Other investments	154	-	-	-	-	-	-	-	154
Other non-current assets	107	-	63	-	1	-	2	-	41
Trade receivables	5,692	-	5,692	-	-	-	-	-	-
Other current operating assets	1,094	-	1,094	-	-	-	-	-	-
Assets	**7,047**	**-**	**6,849**	**-**	**1**	**-**	**2**	**-**	**195**
Trade payables	(4,080)	-	(4,080)	-	-	-	-	-	-
Other current operating liabilities	(1,618)	-	(1,618)	-	-	-	-	-	-
Liabilities	**(5,698)**	**-**	**(5,698)**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial assets and liabilities	**1,349**	**-**	**1,151**	**-**	**1**	**-**	**2**	**-**	**195**

25.6 Commodity risk management

Most of commodities bought by the Group has already been modified and included into spare parts. For the other commodities, the Group has included into customer contracts a customer price adjustment clause, so that the Group has a limited exposure to the variation of commodity prices.

Note 26. Other current operating liabilities

(in € million)	At 31 March 2013	At 31 March 2012
Staff and associated liabilities	1,145	1,069
Corporate income tax	76	116
Other taxes	458	643
Deferred income	95	98
Other payables	1,336	1,371
Derivatives relating to operating activities	363	642
Remeasurement of hedged firm commitments in foreign currency	215	253
Other current operating liabilities	**3,688**	**4,192**

Note 27. Employee benefit expense and headcount

(in € million)	Year ended 31 March 2013	Year ended 31 March 2012
Wages and salaries	4,545	4,188
Social charges	1,143	962
Post-employment and other long-term benefit expense (see Note 23)	299	273
Share-based payment expense (see Note 21)	15	9
Total employee benefit expense	**6,002**	**5,432**

	At 31 March 2013	At 31 March 2012
Staff of consolidated companies at year end		
Managers, engineers and professionals	45,140	42,532
Other employees	41,112	42,917
Headcount (*)	**86,252**	**85,449**

(*) Headcount doesn't include any temporary people

Note 28. Contingent liabilities and disputes

28.1 Contingent liabilities

Commercial obligations

Contractual obligations of the Group towards its customers may be guaranteed by bank bonds or insurance bonds. Bank and insurance bonds may guarantee liabilities already recorded on the balance sheet as well as contingent liabilities.

At 31 March 2013, the Group has in place both uncommitted bilateral lines in numerous countries up to €20.7 billion and a Committed Bonding Facility Agreement allowing issuance of instruments until 27 July 2016 for an amount of € 9 billion

At 31 March 2013, the total outstanding bonding guarantees related to contracts, issued by banks or insurance companies, amount to €15.6 billion (€15.9 billion at 31 March 2012).

The available amount under the Committed Bonding Facility at 31 March 2013 amounts to €2.1 billion (€1.4 billion at 31 March 2012). The issuance of new bonds under this bonding facility is subject to the financial covenants disclosed in Note 25.5. The available amount under bilateral lines at 31 March 2013 amounts to €10.7 billion.

Vendor financing

Until 2003, the Group provided some financial support, referred to as vendor financing, to financial institutions financing certain purchasers of Transport equipment.

At 31 March 2013, guarantees given as part of past vendor financing arrangements amount to €258 million.
Included in this amount are:

- guarantees totalling $63 million (€49 million and €47 million at 31 March 2013 and 31 March 2012 respectively) given with respect to equipment sold to a US train operator,
- guarantees totalling £177 million (€209 million and €212 million at 31 March 2013 and 31 March 2012 respectively) given as part of a leasing scheme involving London Underground Limited (Northern Line). Were London Underground Limited to decide not to extend the contract beyond 2017, and to hand the trains back, the Group has guaranteed to the lessors that the value of the trains and associated equipment, net of the £15 million non-extension payment due by London Underground, should not be less than £177 million in 2017. The £177 million is included in the €367 million amount of "Other obligations under long-term rental" (see Note 24).

28.2 Disputes

Disputes in the Group's ordinary course of business

The Group is engaged in several legal proceedings, mostly contract-related disputes that have arisen in the ordinary course of business. These disputes, often involving claims for contract delays or additional work, are common in the areas in which the Group operates, particularly for large long-term projects. In some cases, the amounts, which may be significant, are claimed against the Group, sometimes jointly with its consortium partners.

In some proceedings the amount claimed is not specified at the beginning of the proceedings. Amounts retained in respect of litigation are taken into account in the estimate of margin at completion in case of contracts in progress or included in provisions and other current liabilities in case of completed contracts when considered as reliable estimates of probable liabilities. Actual costs incurred may exceed the amount of initial estimates because of a number of factors including the inherent uncertainties of the outcome of litigation.

Asbestos

In France, some of the Group's subsidiaries are subject to civil proceedings in relation to the use of asbestos. These proceedings are initiated by certain employees or former employees suffering from an occupational disease in relation to asbestos with the aim of obtaining a court decision allowing them to obtain a supplementary compensation from the French Social Security (medical) funds. In addition former employees not suffering from an asbestos related occupational disease have started lawsuits before the French courts with the aim of obtaining compensation for damages in relation to their alleged exposure to asbestos, including the specific "anxiety damage".

In the United States, subsidiaries of the Group are also subject to asbestos-related personal injury lawsuits. The Group considers that it has valid defences in these cases and the number of outstanding cases is decreasing.

The Group believes that the cases where it may be required to bear the financial consequences of such civil or criminal proceedings both in France and the United States do not represent a material exposure. While the outcome of the existing asbestos-related cases cannot be predicted with reasonable certainty, the Group believes that these cases will not have any material adverse effect on its financial condition. It can give no assurance, however, that present asbestos-related cases or new cases it may face in the future may not have a material adverse impact on its financial condition.

Alleged anti-competitive activities

GIS equipment

In April 2006, the European Commission commenced proceedings against Alstom, along with a number of other companies, based on allegations of anti-competitive practices in the sale of gas-insulated switchgears ("GIS equipment"), a product of its former Transmission & Distribution business sold to Areva in January 2004, following investigations that began in 2004.

On 24 January 2007, the European Commission levied a fine of €65 million against Alstom which includes €53 million on a joint and several basis with Areva T&D (Alstom Grid). Alstom has requested the cancellation of this decision before the General Court of the European Union. On 3 March 2011 the Court reduced the amount of fines levied against Alstom to €58.5 million out of which €48.1 million on a joint and several basis with Areva T&D (Alstom Grid). On 20 May 2011,

Alstom requested the cancellation of this decision before the Court of Justice of the European Union. A hearing took place on 2 May 2013 and the final decision could occur before the end of 2013.

Following the aforementioned European Commission decision of 24 January 2007, on 17 November 2008 National Grid commenced a civil action before the High Court of Justice in London to obtain damages against the manufacturers of GIS equipment, including Alstom and certain of its subsidiaries. National Grid asserts that it has suffered overall alleged damages from all manufacturers concerned of £249.3 million in total since it bought GIS equipment at inflated prices due to alleged anti-competitive arrangements between manufacturers. Alstom contests the facts. The High Court of Justice in London decided that the final hearings would occur in June 2014. Two other similar civil actions started in May and September 2010 before national jurisdictions for a global amount of approximately €32 million are ongoing.

Power transformers

On 20 November 2008, the European Commission sent a statement of objections to a number of manufacturers of power transformers, including Alstom, concerning their alleged participation in anti-competitive arrangements. Alstom has contested the materiality of the alleged facts. On 7 October 2009, the European Commission levied a fine of €16.5 million against Alstom which includes €13.5 million on a joint and several basis with Areva T&D (Alstom Grid). Alstom has requested the cancellation of the decision before the General Court of the European Union on 21 December 2009. The hearings on the merits took place on 9 July 2012 and the decision is expected to occur within one year.

Boilers

The Group received a statement of objections issued by the German Federal Cartel Office ("FCO") on 22 December 2008, alleging breaches of German competition law in the field of steam generators for lignite-fired power plants. On 20 October 2011, the FCO levied a fine of €42 million against ALSTOM Power Systems GmbH and two of its former officers, as well as against two competitors now bankrupt for alleged cartel arrangements between 1990 and 2003. This decision is final and the fine has been paid by Alstom. In addition the Group has reached agreements with regard to three out of four potential customer claims for civil actions. On 29 December 2011 the fourth customer filed a civil action against a German Alstom affiliate before the Dortmund Regional Court for an amount of €33 million, plus interests. Alstom contests.

Alleged illegal payments

Certain companies and/or current and former employees of the Group have been or are currently being investigated in various countries, by judicial authorities (including in France, in the United States of America and in the United Kingdom) and development banks with respect to alleged illegal payments. These procedures may result in fines, exclusion of Group subsidiaries from public tenders and third-party actions.

The World Bank sanctioned Alstom for improper payment of €110,000 made in 2002 in relation to a World Bank–financed Zambian power rehabilitation project. On 22 February 2012, as part of a negotiated resolution agreement, the World Bank announced its decision to debar ALSTOM Hydro France and ALSTOM Network Schweiz AG (Switzerland) and their affiliates from public tenders financed by the World Bank for a period of 3 years, which can be reduced to 21 months subject to certain conditions Alstom intends to respect. The Group paid also a restitution amount of $9.5 million. This debarment qualifies for cross-debarment by the other multilateral development banks pursuant to the Agreement of Mutual Recognition of Debarments signed on 9 April 2010.

On 22 November 2011, the Swiss Office of Attorney General closed the investigations opened in 2007 to determine whether the Alstom Group and some of its entities had violated rules prohibiting the payment of foreign civil servants to unlawfully win commercial contracts. After thorough investigations, the Office of Attorney General has concluded the absence of any bribery system or so called slush funds used for bribery of civil servants to illegally obtain contracts and sanctioned the company for corporate negligence in three isolated cases, imposing a fine of CHF 2.5 million, to which is added the payment of an amount corresponding to the estimated profits of the orders of CHF 36.4 million. Alstom has also paid reparation in the amount of CHF 1 million to the International Committee of the Red Cross. The Office of Attorney General has issued a dismissal order acquitting the Alstom Group and its entities of any additional wrongdoing, fully closing its investigations.

US litigation following an accident in the Washington D.C. metro

On 22 June 2009, a collision between two metro trains occurred in the Washington D.C. metro resulting in the death of 9 persons and the injury of 52 persons. The claims against Alstom Signaling Inc. initially amounted to approximately $475 million. A report of the National Transportation Safety Board on the causes of the accident partially implicated equipment supplied by Alstom Signaling Inc. As of today, 120 claims have been made. The 29 most serious claims were asserted through lawsuits. Of these 29 claims, 25 have been settled for a cost of about $10.2 million and efforts are currently underway to settle the remaining four cases. All other cases have been settled. All the claims have been declared to the Group's insurers and Alstom believes it has adequate insurance coverage.

Budapest metro

In 2006, Alstom was awarded by BKV a contract for the delivery of 22 Metropolis metros for Line 2 and 15 metros for Line 4 for the city of Budapest. During the execution of the project, Alstom experienced delays mostly related to technical change requests from BKV and the refusal by the Hungarian Authority "NKH" to deliver the final train homologation in 2010 (in August 2007, NKH granted a Preliminary Type License). . On 19 October 2010 BKV terminated the contract and called immediately thereafter all bank guarantees amounting in total to approximately €130 million. This amount was paid in June 2011. In July 2011 the parties agreed the re-entry into force of the contract and the suspension of the arbitration procedure initiated by Alstom in January 2011. The homologation for the Final Type License was obtained in July 2012. On 17 December 2012, the arbitration resumed to solve notably the issue of the damages resulting from the past termination of the contract. The contract execution is ongoing.

Lignite-fired station in Maritza

In 2006, Alstom was awarded by AES a contract for the manufacture of a lignite-fired station in Maritza, Bulgaria. During the execution of the project, Alstom experienced delays and works disruptions mostly due to the defective nature of the lignite supplied by AES. In February 2011, AES called the performance bank guarantee amounting to approximately €150 million. This amount was paid in July 2011. In addition, in March 2011, AES terminated the contract. An arbitration procedure initiated by Alstom, for wrongful termination notably, is on-going. According to the latest arbitral timetable, the hearings before the Arbitral Tribunal are postponed until December 2013 to January 2014.

There are no other governmental, legal or arbitration procedures, including proceedings of which the Group is aware and which are pending or threatening, which might have, or have had during the last twelve months, a significant impact on the financial situation or profitability of the Group.

Note 29. Lease obligations

		Maturity of lease payments		
(in € million)	**Total**	**Within 1 year**	**1 to 5 years**	**Over 5 years**
Long term rental (*)	467	51	189	227
Capital leases	127	22	78	27
Operating leases	356	71	193	92
Total at 31 March 2013	**950**	**144**	**460**	**346**
Long term rental (*)	529	56	215	258
Capital leases	148	25	83	40
Operating leases	308	65	152	91
Total at 31 March 2012	**985**	**146**	**450**	**389**

(*) Obligations related to lease of trains and associated equipments (see Note 24) including interests to be paid.

Note 30. Independent Auditors' fees

Fees due to auditors and members of their networks in respect of years ended 31 March 2013 and 31 March 2012 were as follows:

(in € million)	**Year ended 31 March 2013**				**Year ended 31 March 2012**			
	Mazars		Pricewaterhouse Coopers		Mazars		Pricewaterhouse Coopers	
	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
Independent Auditors' diligence, certification, review of individual and consolidated accounts	6.9	86%	12.0	92%	7.0	94%	11.4	79%
. Alstom SA	*0.8*	*10%*	*1.4*	*11%*	*0.8*	*11%*	*1.5*	*10%*
. Controlled entities	*6.1*	*76%*	*10.6*	*81%*	*6.2*	*83%*	*9.9*	*69%*
Other audit diligence and audit related services	0.9	12%	0.7	5%	0.4	5%	2.8 (*)	19%
. Alstom SA	-	*0%*	*0.1*	*1%*	*0.1*	*1%*	-	*0%*
. Controlled entities	*0.9*	*12%*	*0.6*	*4%*	*0.3*	*4%*	*2.8*	*19%*
Sub-total	**7.8**	**98%**	**12.7**	**97%**	**7.4**	**99%**	**14.2**	**98%**
Other services								
Legal, tax and social	0.2	2%	0.3	3%	0.1	1%	0.3	2%
Other	-	-	-	-	-	-	-	-
Sub-total	**0.2**	**2%**	**0.3**	**3%**	**0.1**	**1%**	**0.3**	**2%**
Total	**8.0**	**100%**	**13.0**	**100%**	**7.5**	**100%**	**14.5**	**100%**

(*) of which € 2,2million relating to due diligence services rendered in connection with business combinations and directly linked to the statutory auditor engagement. These services were pre-approved by the Audit Comittee and are compliant with French independance rules and Alstom's requirements.

Note 31. Related parties

The Group has identified the following related parties:

- Shareholders of the Group
- Associates & joint ventures
- Key management personnel

31.1 Shareholders of the Group

Bouygues, a French company listed on Paris stock market, is the main shareholder holding more than 5% of the parent company's share. At 31 March 2013, Bouygues holds a 29.4% stake in Alstom share capital.

31.2 Related-party disclosures

	Year ended 31 March 2013		At 31 March 2013	
(in € million)	**Income**	**Expenses**	**Receivables**	**Liabilities**
Joint ventures	88	1	24	1
Associates	1	-	5	-

31.3 Key management personnel

The Group considers that key management personnel as defined by IAS 24 are the members of the Executive Committee at 31 March 2013.

(in € thousand)	Year ended 31 March 2013	Year ended 31 March 2012
Short-term benefits	**8,611**	**8,254**
Fixed gross salaries	4,287	4,581
Variable gross salaries (1)	4,324	3,673
Post-employment benefits	**4,195**	**3,367**
Post-employment defined benefit plans	4,047	3,171
Post-employment defined contribution plans	148	196
Other post-employment benefits	-	-
Other benefits	**1,129**	**795**
Non monetary benefits	131	54
Share-based payments (2)	998	741
Total	**13,935**	**12,416**

(1) Includes long-term conditional compensation plan allocated to the Chairman and CEO.

(2) Expense recorded in the income statement in respect of stock option plans and free shares.

Note 32. Subsequent events

The Group has not identified any subsequent event to be reported.

Note 33. Major companies included in the scope of consolidation

The major companies of the Group are listed below and selected according to one of the following criteria: significant holding companies or sales above €100 million for the year ended 31 March 2013. The list of all consolidated companies is available upon request at the head office of the Group.

Companies	Country	Ownership %	Consolidation Method
Parent company			
ALSTOM	France	-	Parent company
Holding companies			
ALSTOM Holdings	France	100%	Full consolidation
ALSTOM Power Holdings SA	France	100%	Full consolidation
ALSTOM Hydro Holding	France	100%	Full consolidation
ALSTOM Deutschland AG	Germany	100%	Full consolidation
ALSTOM Spa	Italy	100%	Full consolidation
ALSTOM NV	Netherlands	100%	Full consolidation
Alstom Transport Holdings BV	Netherlands	100%	Full consolidation
ALSTOM Grid Finance BV	Netherlands	100%	Full consolidation
ALSTOM Renewable Holding BV	Netherlands	100%	Full consolidation
ALSTOM (Switzerland) Ltd	Switzerland	100%	Full consolidation
ALSTOM UK Holdings Ltd	United Kingdom	100%	Full consolidation
ALSTOM Inc	USA	100%	Full consolidation
ALSTOM Transport Holding US Inc.	USA	100%	Full consolidation
Industrial companies			
ALSTOM Grid Australia Ltd	Australia	100%	Full consolidation
ALSTOM Limited (Australia)	Australia	100%	Full consolidation
ALSTOM Belgium SA	Belgium	100%	Full consolidation
ALSTOM Brasil Energia e Transporte Ltda	Brazil	100%	Full consolidation
ALSTOM Grid Energia Ltda	Brazil	100%	Full consolidation
ALSTOM Power & Transport Canada Inc.	Canada	100%	Full consolidation
ALSTOM Grid Canada, Inc	Canada	100%	Full consolidation
ALSTOM Hydro China Co., Ltd	China	100%	Full consolidation
Casco Signaling Ltd	China	50%	Proportionate consolidation
ALSTOM Estonia AS	Estonia	100%	Full consolidation
ALSTOM Transport SA	France	100%	Full consolidation
ALSTOM Power Systems SA	France	100%	Full consolidation
ALSTOM Grid SAS	France	100%	Full consolidation
ALSTOM Power Service	France	100%	Full consolidation
ALSTOM Hydro France	France	100%	Full consolidation
COGELEX	France	100%	Full consolidation
ALSTOM Transport Deutschland GmbH	Germany	100%	Full consolidation
ALSTOM Power Systems GmbH	Germany	100%	Full consolidation
ALSTOM Power GmbH	Germany	100%	Full consolidation
ALSTOM Boiler Deutschland GmbH	Germany	100%	Full consolidation
ALSTOM Grid GmbH	Germany	100%	Full consolidation
ALSTOM Power Energy Recovery GmbH	Germany	100%	Full consolidation
ALSTOM T&D India Limited	India	80%	Full consolidation
ALSTOM India Limited	India	69%	Full consolidation
ALSTOM Ferrovaria S.p.A	Italy	100%	Full consolidation
ALSTOM K.K.	Japan	100%	Full consolidation
ALSTOM Services Sdn Bhd	Malaysia	100%	Full consolidation
Cerrey - Babcock & Wilcox	Mexico	25%	Equity method
ALSTOM Mexicana S.A. de C.V.	Mexico	100%	Full consolidation
The Breakers Investments B.V. (Transmashholding)	Netherlands	25%	Equity method

Companies	Country	Ownership %	Consolidation Method
ALSTOM Power Sp.z o.o.	Poland	100%	Full consolidation
ALSTOM Asia Pte Ltd	Singapore	100%	Full consolidation
ALSTOM S&E Africa (Pty)	South Africa	100%	Full consolidation
ALSTOM Power Service (Pty) Ltd	South Africa	100%	Full consolidation
ALSTOM Transporte SA	Spain	100%	Full consolidation
ALSTOM Renovables Espana, S.L.	Spain	100%	Full consolidation
ALSTOM Power Sweden AB	Sweden	100%	Full consolidation
ALSTOM (Switzerland) Ltd	Switzerland	100%	Full consolidation
AP O&M Ltd.	Switzerland	100%	Full consolidation
ALSTOM Taiwan Ltd	Taiwan	100%	Full consolidation
ALSTOM Grid Enerji Endustrisi A.S	Turkey	100%	Full consolidation
ALSTOM Middle East FZE	United Arab Emirates	100%	Full consolidation
ALSTOM Ltd	United Kingdom	100%	Full consolidation
ALSTOM Power Inc.	USA	100%	Full consolidation
BrightSource Energy	USA	25%	Equity method
POWER SYSTEMS MFG., LLC	USA	100%	Full consolidation
ALSTOM Boilers US LLC	USA	100%	Full consolidation
ALSTOM Grid Inc.	USA	100%	Full consolidation

Our code of ethics

We are shaping the future | ALSTOM

Corporate Communications - January 2010 (revised August 2013)

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"Ethical rules and values guarantee our future"

Our core values - Trust, Team and Action - ensure Alstom's overall cohesion, inspire trust among our partners, reinforce our image and, quite simply, guarantee our future.

Alstom's reputation and integrity can only be built by continuously strengthening ethical rules and procedures. Our growth is underpinned and guided by our fundamental principles of integrity and transparency, applied scrupulously and without exception with regard to employees, shareholders, customers in the public and private sectors, suppliers, competitors and partners. Our Code of Ethics is essential and all employees, in their day-to-day work, need to share the same clear values and observe the same rules of personal and collective conduct that define Alstom as an ethical company.

Through the Alstom Integrity Programme, I constantly strive to strengthen this approach and ensure that our values and rules are strictly applied, without exception. Since March 2009, the Group has been engaged in a certification process to assess that its rules and their implementation are in line with the highest international business standards.

All our ethical rules are important. However, three rules, covering competition, corruption and internal control, deserve special attention, as they are central to our individual and collective responsibilities. To ensure nothing is overlooked, any employee who has reason to believe that our Code of Ethics is being violated can immediately report the matter to his or her direct manager or use Alstom's Alert Procedure, in accordance with the relevant national laws and rules.

I rely on each and everyone of you, individually and collectively, to ensure that all our rules are respected on a daily basis.

Patrick Kron
Chairman & CEO

OUR GROWTH IS BUILT ON FUNDAMENTAL PRINCIPLES

The Code of Ethics and all relevant Group Instructions apply to everyone in the Group and those who conduct business on behalf of Alstom.

Employees are expected to assume personal responsibility for performing their duties with fairness and integrity, to have an understanding of the Code of Ethics and to refer to it regularly, to have a detailed knowledge of its provisions that apply specifically to their job and to consult their direct manager if in doubt.

Managers' responsibilities go beyond those of other employees. They must actively promote the Code of Ethics in the workplace, showing commitment through their actions. They must be vigilant in preventing, detecting and responding to any violation of the Code of Ethics, and protect employees who report violations.

OUR BASIC PRINCIPLES

Respect laws and regulations

“Do not involve the Group in unlawful practices”

Alstom's reputation for integrity is built on its respect for laws, regulations and other requirements that apply to the conduct of business in all countries in which it is present. It is the personal responsibility of Alstom employees to know the laws, regulations and requirements relating to their job. Any breach of these laws may lead to civil and criminal prosecution. Activities which could involve the Group in unlawful practices are prohibited.

Alstom is a multinational corporation with operations around the world. To ensure our high ethical goals, we require compliance with certain standards that exceed those required by applicable law. Among others, Alstom is attached to the spirit and the letter of laws governing human rights and labour, health and safety standards, environment protection, prevention of corruption, fair competition, taxation and the accurate communication of financial information. We comply with the guiding principles of the OECD, the United Nations Universal Declaration of Human Rights and the principles of the Global Compact and those of the International Chamber of Commerce (ICC). Alstom is also a member of the World Business Council for Sustainable Development (WBCSD).

Apply the principles of honesty and fairness

“No objective justifies a deviation from the rules”

Many of Alstom's activities are not the subject of laws, regulations or other mandatory requirements, in which case principles of fairness and honesty must govern our conduct. It is each employee's responsibility to apply these principles at all times. No performance objectives should be imposed or accepted if they can only be achieved by compromising our ethical standards.

OUR THREE FUNDAMENTAL RULES

The following three rules are fundamental because any deviation from their application exposes the Group and those concerned to considerable risks.

Agreements and understandings with competitors

Competition laws or antitrust laws are intended to ensure open and fair competition among companies. Open and fair competition is in the best interest of Alstom and benefits customers, consumers and society as a whole. Such laws must be complied with at all times. Severe civil and criminal sanctions can be imposed on the company and on individuals if such laws are broken.

“ Respect the rules of competition ”

Alstom employees must not participate in any agreement with competitors that have the intent or effect of fixing prices, distorting a bidding process, dividing a market, limiting production or boycotting a customer or supplier. Alstom employees must not exchange sensitive information with competitors in infringement of the competition laws.

Because rules are complex and differ from one country to another, employees should consult their Legal department for clarification as necessary.

Prevention of corruption and bribery

Alstom's policy is to prohibit all unlawful payments and practices. The Group is fully committed to the elimination of corruption and bribery in its business transactions and complies with the requirements of the OECD Anti-Bribery Convention, of the US Foreign Corrupt Practices Act (FCPA), of the UK Bribery Act 2010, and with all applicable laws in the countries where it is present and follows the guidance of the "Resource Guide to the US Foreign Corrupt Practices Act".

“ Always refuse corruption in business transactions ”

Alstom companies, officers, directors and employees must not offer or provide, directly or indirectly, by requesting assistance from a third party, any pecuniary or other advantage to any person in violation of any legal requirements or Alstom's ethical principles, with a view to obtaining or retaining business or securing any facility or favour that infringes regulations.

"Person" means a public official, political party, employee or agent of a customer in the public or private sectors or employee or agent of a lending agency or bank. Public officials include, but are not limited to public or government officials, agents, employees, or representatives; any political party or political party officials, agents, employees or representatives, candidates for public or political party office, members of public assemblies, officials and employees of international organisations, judges or officials of international courts, government controlled administrations' and state owned companies' employees.

Alstom companies, officers, directors and employees must not offer or provide any advantage or respond to solicitations from any party claiming real or implied influence on an agent in the public or private sector and offering to use that influence to obtain any favourable decision or market share.

Subsequently, Alstom will not take any sanction against employees for being compliant with Alstom rules by refusing any form of corruption and bribery, even if such a decision results in losing business or any other adverse consequences.

Facilitation payments are used to facilitate mandatory administrative procedures and formalities normally carried out through the proper legal channels. Such payments are petty corruption, and although they may be tolerated in some countries, they are illegal in many countries. To avoid any confusion or misunderstanding with regard to acceptable limits, Alstom prohibits any such practices.

Internal control and disclosure of information

“ Every employee has a role to play in internal control ”

Internal control is key as it is designed to provide reasonable assurance to the management at every level in regard to the quality and reliability of financial and business information along with conformity to the applicable laws and regulations, and internal rules in force.

The management of the respective entities (Corporate, Country, Sector, Business or Unit) is responsible for internal control in compliance with the Group's Internal Control Manual and must confirm that it has achieved its task. The integrity of our financial and business information is essential to run our operations legally, honestly and efficiently. As a consequence, all financial and accounting information must be correctly recorded in the Group's books and accounts.

Employees are individually responsible for the records and reports they write and the information they provide (including information entered into information systems). Records should be retained in compliance with Alstom's Records Retention Policy. Management must ensure that the data recorded in the reporting system is perfectly in line with the information due to be published, with the results of the period and with the financial position at the end of the period.

At every level of the Group, employees must ensure that any records, reports, or information they use or communicate to management of the various entities (Corporate, Country, Sector, Business or Unit) enable Alstom to make full, fair, accurate and timely disclosure in reports, documents and other public communications.

These documents include financial reports and projections, research reports, marketing information, sales reports, tax returns, expense accounts, time sheets, claims, environmental and social information and other documents, including those submitted to governmental or regulatory authorities.

In no case should any financial or business records be subject to fraudulent treatment. Fraud, or the act or intent to cheat, steal, deceive or lie, is both dishonest and, in most cases, criminal. Fraud can include, but is not limited to: submitting false expense reports, forging or altering checks, misappropriating assets or misusing the Group's assets, unauthorised handling of transactions, mishandling petty cash, making an entry on records or financial statements that is not in accordance with proper accounting standards.

THE ROLE OF EMPLOYEES AND THE ALSTOM ALERT PROCEDURE

Employees may use the Group's Alert Procedure, in accordance with the laws and rules applicable in the country where they live or work, if they have reason to suspect a violation of anti-corruption, competition and securities or accounting laws and regulations.

The Alert Procedure should only be used if the employee has reason to believe that informing his or her direct manager could cause difficulties or has reason to believe that the reported alleged irregularity will not receive the proper follow-up.

In this case, employees have the choice of reporting by:

- Contacting any one of the following:
- The Country President,
- The Country Counsel,
- The Group General Counsel: Keith Carr
3 avenue André Malraux 92309 Levallois-Perret, France
keith.carr@chq.alstom.com
+33 1 41 49 31 14

- The SVP Ethics & Compliance: Romain Marie
3 avenue André Malraux 92309 Levallois-Perret, France
romain.marie@chq.alstom.com
+33 1 41 49 21 31

- Or using the two methods of communication, reachable 24 hours a day, 7 days a week, 365 days a year:
- The secure website: www.alstom.ethicspoint.com
- The toll-free hotline (dial-in numbers available on the secure website).

Every measure will be taken to respect employee confidentiality. Alstom shall honour its commitment that no employee will suffer from retaliation, such as a change of status, harassment or any other form of discrimination as a result of using the Alert Procedure or disclosing information in good faith

Relationships with our business partners

• Customers

Alstom must treat all its customers honestly and fairly, regardless of the size of their business. The Group is committed to providing customers with high-quality products and services that meet their needs.

“ Be trustworthy ”

Alstom gives detailed information on its products and services in its advertising, public statements and offers to individual customers. Employees who negotiate contracts must ensure that any statements, communications and presentations made to customers are accurate and truthful.

Customer confidential, sensitive or private information must not be disclosed by an Alstom employee to any person except as required or permitted within a project or contract.

• Suppliers and sub-contractors

Suppliers' and sub-contractors' inputs represent a high proportion of the value of Alstom's products and services and play an important role in customer satisfaction.

Purchasing decisions are based on objective assessment of the supplier's or sub-contractor's reliability and integrity and on the overall value of the offering in view of short and long-term considerations and objectives. For the interest of Alstom, the purchase of goods and services is based on the merits of price, quality, performance, delivery and suitability. The purchaser endeavours to ensure that a situation of dependence is not established with suppliers and sub-contractors, and therefore systematically develops credible alternatives.

“ Fair selection process and observance of the Alstom Charter for Sustainable Development ”

Care must be taken to avoid conflicts of interest and any appearance of partiality. Kickbacks are prohibited.

Relations with suppliers and sub-contractors are governed by procedures set out by Sourcing and Supply Chain, which should be applied by everyone and are designed to ensure all suppliers and sub-contractors are treated equally.

Alstom requires its suppliers and sub-contractors to strictly comply with all applicable legal requirements related to their activities and business environment. The Group requires its suppliers and sub-contractors to sign its Charter for Sustainable Development, underpinned by respect for human rights, employee health and safety, ethical rules, in particular those related to anti-corruption and fair competition, environmental protection and compliance with applicable laws and regulations. Alstom takes steps to ensure that these commitments are met, both during the selection process and during the contract execution.

• Business Advisors

In order to avoid any occurrence of bribery or unlawful practices exposing the Group to liability, relations with business advisors are guided by strict internal procedures.

“ Strictly follow the procedures ”

Business Advisor means any representative, business development consultant, agent, sponsor or lobbyist involved directly or indirectly in activities pertaining to sales or project execution. It refers also to third parties acting on behalf of Alstom, including, but not limited to, lawyers, tax advisors, customs agents, engineers, financial advisors, who interact with customers or any public or private authorities.

To prevent public and private corruption, the use of business advisors is subject to approval at Sector and Corporate levels and is supervised by the Ethics & Compliance department as far as the respect of compliance principles is concerned.

• Government and other public procurement contracts

Contracts with government-owned or public entities often require compliance with very high standards. Alstom observes the laws and regulations that govern the acquisition of goods and services by governments in all its markets, including laws prohibiting efforts to influence government officials.

“ Apply the rules ”

Alstom is committed to competing fairly, to being truthful and accurate and, when awarded, to perform contracts in accordance with all contractual and legal obligations.

Where government contracts involve the possession, use of, or access to classified or otherwise restricted information, it is essential that the employees involved strictly follow the security procedures applicable to such information.

Although some of Alstom's former public customers have been partially or wholly privatised, they may still be subject to the

same or similar stringent rules. In order to prevent conflicts of interest, special care must be given to the hiring of a former or current government employee. This needs to be carefully reviewed and approved by the Human Resources department.

• Export controls and trade restrictions

Local, national or international laws, regulations or similar requirements establishing embargoes, boycotts or other trade restrictions on goods, services, software or technology are enacted from time to time.

> "Abide by international trade laws"

All Alstom companies, exporting goods and services or performing services outside their own countries (including technical assistance or training), must strictly comply with all applicable Export Control laws of the country in which they are present. Special care needs to be given for dual-use items (products, software and technical data which can have an application both in the civil and military fields). Employees involved in international trade must ensure they comply with the latest applicable regulations and seek guidance from their Legal department.

Failure to observe these laws and regulations could expose both the Company and the employees involved to severe penalties, including prohibition of future exports.

• Money laundering

Money laundering is the processing of criminal proceeds in order to disguise their illegal origin.

> "Work only with reputable business partners"

In compliance with all laws related to this matter, Alstom conducts business with reputable partners. Employees need to be cautious with the way payments are made to detect if irregularities may exist and with partners who demonstrate suspicious behaviours in their operations.

• Conflicts of interest

Conflicts of interest distort judgement. Alstom employees must avoid any situation that involves or may involve a conflict between their personal interests (or those of family members or relatives) and those of the Group.

To protect employees and Alstom from actual or apparent conflicts of interest, employees must not make or hold any investments in a supplier, customer, competitor, consulting company or any business partner if the nature of such investments might affect a business decision taken on behalf of Alstom. Employees must not deal directly with a business partner that can be a customer, a supplier, an agent, a consultant or any other third party, if they or their family members or relatives have an interest in such third parties. If such situations arise, employees must clearly inform their Unit manager of the matter and obtain written approval to proceed.

> "Raise any potential conflict of interest with your management"

Employees must refrain from accepting outside work from a supplier, customer or competitor and should not be involved in any outside work that may adversely affect their performance or judgement on the job. Employees must disclose any outside employment to their manager.

• Gifts and hospitality

Alstom aims to ensure that any business decisions taken by its employees, customers or suppliers are made solely through the proper business channels — fundamentally based on competitiveness, performance and the quality of the products and technologies it offers — and are not driven by any form of personal improper advantage or conflict of interest.

In some cultures, good business relations may sometimes involve the exchange of symbolic gifts and hospitality. Employees must not offer, accept or authorise a family member or relative to accept gifts, money, loans, invitations or any other form of special treatment from anyone involved in business dealings with the Group, if the ultimate goal is to influence business decisions.

> "Do not allow decisions to be influenced"

Employees may accept or offer, on behalf of Alstom, an occasional business meal invitation or an occasional non-pecuniary symbolic gift of low value if it can be reciprocated on another occasion. Any employee required to offer or accept a gift or invitation of value as a result of protocol, courtesy or other reasons must first inform his or her Unit manager and the Legal department.

A socially responsible company

> "Promote sustainable development"

Alstom applies its policies and standards in all countries in which it is present. The Group respects the cultures of local communities with which it interacts and takes into account the interests of its different stakeholders.

Protecting the environment

Alstom has given itself the ambition and the means to make a significant contribution to environmental protection through the systems, equipment and services it sells. The Group's core activities are focused on providing advanced technology and services to improve the management of natural resources, significantly reduce emissions and greenhouse gas effects and enhance the quality of life, while contributing to economic and social progress. Alstom also communicates to its customers information on the environmental impact of its products.

> "Be recognised as a reference in this domain"

Furthermore, Alstom designs its equipment and manufacturing processes for minimum consumption of energy, eliminates hazardous products and favours materials that can be recycled. Alstom includes the environmental impact in the criteria for major decisions. At all manufacturing sites and offices, this impact is managed in line with the rules set out in the Environment, Health and Safety (EHS) policy and covered by quarterly reports. Each Unit is responsible for setting its own targets in line with the policy pursued by the Group and the Sectors. In their day-to-day activities, all employees contribute to this collective effort.

Community relations

Alstom takes into account the social, economic and environmental interests of local communities. The Group encourages its employees to build relations with local institutions, universities and schools.

> "Be involved in communities"

Alstom encourages its employees to volunteer and play a role in the local community. Activities undertaken by employees on their own initiative are done so in their name and in their own time. Conflicts of interest are to be carefully avoided.

Political contributions and activity

> "No promotion of particular political interests"

Political contributions are often subject to national laws and vary from country to country. Even when legally permitted, such contributions can be a source of abuse or otherwise perceived as a questionable practice. Alstom's policy is not to make contributions, financial or in kind, to political parties or organisations, or to individual politicians.

Alstom respects the rights of its employees to participate as individuals in their community and civic affairs. This must be done at a personal level, in their own time and at their own expense, consistent with applicable laws. Alstom's stationery, funds and other property must not be used for personal political activities. Employees need to carefully separate their own political activities from Alstom activities and avoid any conflict of interest.

Charitable contributions

> "Enhance Alstom's reputation as a good citizen"

Charitable contributions made in the Group's name or using its financial resources are permitted as long as they comply with applicable laws and regulations. Contributions should have relevance to the community in which Alstom operates and must effectively serve the purpose of the charitable organisation concerned while enhancing Alstom's reputation as a good citizen. Charitable contributions must not be made without prior written approval and must be properly recorded.

Sponsorship

Sponsorship is part of the marketing and communication strategy. It is authorised in compliance with applicable laws and regulations and solely within the framework of the Group's communications policy.

> "Reflect Alstom's communications policy"

Decisions to engage the Group in any sponsorship is subject to prior approval from the Communications departments (Corporate or Sectors) and must be properly recorded.

Human Resources

> "Encourage individual and collective expression"

It is Alstom's policy to fully comply with the United Nations Universal Declaration of Human Rights and with the International Labour Organization's Fundamental Conventions.
In line with these principles, Alstom applies a human resources policy based on fair treatment and respect for individuals, their dignity, rights and individual liberties, and promotes their involvement in company life. The Group promotes all forms of dialogue with both individual employees and their representatives.

Health and safety

Alstom is committed to providing a safe and healthy work environment at all its sites, offering the same high standards wherever it has operations. These standards are set out in the

Environment, Health and Safety (EHS) policy and apply to employees and sub-contractors working at Alstom's sites or under Alstom's supervision at customer sites.

" Promote a safe work environment "

Measures to offset any risk related to health and safety issues are applied at all sites and throughout projects. These measures are implemented in partnership with the relevant bodies and committees.

Employees are responsible for reporting any hazardous situations they may witness, or any incidents indicating such risks, and for helping to implement preventive measures. Safety guidelines must be strictly adhered to.

• Security of employees

" Limit risks "

Alstom does its utmost to protect its employees, wherever they are working. The Group issues regular instructions to inform people of risks and to set out procedures to be followed, such as in the event of unstable political situations, criminal acts or health matters. All employees should familiarise themselves with these regularly updated instructions, particularly with regard to business travel.

• Social relations

" Collective interest "

Alstom respects the right of all employees to form and join trade unions and workers' organisations of their choice and to organise and bargain collectively. The social relations policy recognises that differences are a source of strength for the Group. Alstom respects the role and responsibilities of the social partners and commits to communicating and negotiating openly to address issues of collective interest.

• Equal opportunity and diversity

Alstom employees are required to comply with all laws and regulations forbidding any discrimination with respect to age, race, gender, ethnic origin, nationality, religion, health, disability, marital status, sexual preference, political or philosophical opinions, trade-union membership or other characteristics protected by applicable law.

" No discrimination "

Alstom does not tolerate any form of harassment, sexual, physical or psychological, coercion or bullying. If employees observe or experience any form of abuse, they can report it to their HR management. No adverse action can be undertaken against employees making such a good faith report. The recruitment process is exclusively based on the applicant's qualifications and skills. Remuneration is solely determined on the basis of the employee's contribution to the Group.

The recruitment, training and personal development of employees from different backgrounds is an important asset for Alstom. The Group seeks to recognise and value these differences by building teams that reflect the markets and communities in which it operates.

• Career management for employees

" Promote personal development "

As part of Alstom's "It's all about people!" policy, the Group aims to promote personal development through regular face-to-face interviews between employees and their managers. These interviews help focus on required skills, achievements, development plans and career paths according to individual needs and aspirations and business needs. Training programmes and collaborative ways of working also contribute to this process. Looking for solutions adapted to the skills of employees is maintained throughout their career, even in the event of reorganisation.

• Data privacy

Alstom and each of its employees must be particularly attentive to laws and regulations concerning privacy and protection of information concerning individuals, employees or third parties and comply with them.

" Respect individual rights "

Employees who have access to personal data shall be only those whose function and responsibility specifically include the handling of personal data; the right of access is restricted according to the nature and scope of the individual function and responsibility. Alstom does not communicate personal information to third parties, except to the extent necessary and permitted by applicable laws or regulations.

Protecting Alstom's assets

All Alstom employees should do their utmost to protect the Group's assets. Alstom's funds and assets must not be used for illegal purposes or for purposes not related to Alstom's activities.

Employees should not appropriate any of Alstom's assets for their own use or make them available to others for a non-

Alstom use. Employees must not use Alstom's assets for personal gain or personal business, nor may they allow any other person not employed or authorised by the Group to use them. Misappropriation or theft of these assets may give rise to sanctions and may constitute a violation of law, giving rise to civil or criminal prosecution.

Alstom's assets are not only physical or tangible items (such as funds, supplies, patented inventions, or computer and telephone networks); they also include intangibles (such as ideas, concepts or know-how) which employees develop in the course of their work for Alstom. In addition, assets cover customer/supplier lists and other market data, along with any information to which employees have access as a result of their work responsibilities.

> "Do not appropriate Alstom's assets"

• Respecting confidential information

Employees who may have access to confidential and proprietary data relating to Alstom's business activities, including information on customers and suppliers must only be those whose function and responsibility specifically include the handling, use and communication of such data. The right of access is restricted according to the nature and scope of the individual function and responsibility. Moreover, any employee who comes into possession of confidential or proprietary information must keep such information confidential and use it only for authorised purposes.

> "Share information with caution"

Examples of confidential information include, but are not limited to, results, forecasts and other financial data, human resources and personal data, information with respect to acquisitions and divestitures, new products and orders. Examples of proprietary information include, but are not limited to, business strategies, product improvements, technical information, systems, inventions, trade secrets or know-how developed or acquired by Alstom. This definition includes matters covered by secrecy agreements.

Employees who are not sure whether they may properly disclose or act on information in their possession should seek guidance from their manager. Employees' obligations with respect to such information continue beyond their term of employment.

• Intellectual property

Alstom's intellectual property rights which include patents, know-how, trade secrets, trademarks, domain names, industrial designs and copyrights, are one of its most valuable assets, and are therefore protected by law, whenever possible.

> "One of our most valuable assets"

Employees have a duty to safeguard these assets. Alstom ensures that valid intellectual property of others are respected and not infringed by its employees.

• Using Group communications resources

The Group's communications resources – email, voicemail, internet, telephone (including mobile phone) and other means of communication – are the property of Alstom and are to be used for professional purposes.

Their use for private purposes is based on the recognition that private and business lives are closely linked and that the right balance between the two is beneficial to Alstom and its employees. However, such use should be limited to what is reasonable and necessary in the circumstances. Employees are strictly forbidden from using the Alstom email system or the internet or any other means of communication for any improper purpose, and must avoid the transmission or receipt of messages or images that may be viewed as insulting, offensive or demeaning to the individual.

> "Not to be used for improper purposes"

• Insider dealing

In the normal course of business, some employees may have access to information that can affect the value of shares, options or other securities, if such information were to become public. Since Alstom is a publicly quoted company, it is subject to the securities laws and regulations of several jurisdictions which regulate disclosure of information to the public.

> "Access to privileged information imposes obligations"

Information which may affect the value of Alstom's shares, options or other securities, is considered "inside" information and must be kept confidential until publicly disclosed by the Group. Acting on this information for personal gain or disclosing it to anyone else before it has been officially released is likely to violate securities laws and is not in accordance with Alstom policy. Penalties for violations are severe and can include fines and imprisonment.

This rule also applies to securities issued by other companies, including customers, suppliers and any business partner, listed on any stock exchange, should the employee have privileged information concerning that company.

• Communication with the media and investors

Alstom develops active communications to reinforce its image among customers, opinion leaders, analysts, investors and the public. Alstom is a publicly quoted company and

any communication with the media or analysts may affect Alstom's image or reputation and must be carefully reviewed and controlled.

Media relations are the responsibility of Corporate and Sector Communications departments. All statements to the media or responses to inquiries from the media must be handled through the Communications departments or coordinated with them. The Investor Relations department is responsible for all financial communications with analysts and investors. Any communication from an analyst or investor requesting information relating to Alstom should be forwarded to the Investor Relations department, which will deal with the matter.

“Under strict control”

Unless approved in advance by the Communications departments, employees are not authorised to represent Alstom on internet social networking platforms like social forum web sites, blogs or chat rooms.

The Code of Ethics cannot cover every conceivable situation to which an employee could potentially be exposed. Each of us must use common sense and judgement in applying these principles, refer to existing rules and guidelines, and seek advice either from management or from the relevant VP Human Resources and/or the General Counsel and/or the SVP Ethics & Compliance, if in doubt.

IMPLEMENTATION

The Alstom Integrity Programme is being implemented and monitored throughout the Group under the responsibility of the SVP Ethics & Compliance. Alstom is engaged in an Ethics & Compliance certification process. Its rules, procedures and guidelines for dealing with sales consultants were successfully certified in March 2009 by Ethic Intelligence, an international independent body, after an audit performed by SGS, a Swiss company.

Awareness and training

These principles are conveyed through rules, procedures and instructions, along with relevant training to promote the widest possible distribution within the Group, via the Alstom Integrity Programme introduced by the Ethics & Compliance department. The Alstom Integrity Programme is to be applied scrupulously in all areas of the Group and in all countries where Alstom is present.

The Code of Ethics is available to all Alstom employees on the Group's intranet site and is published on the Alstom internet site for our stakeholders. A practical guide to the Code of Ethics is available to all Alstom employees through an intranet-based e-learning programme. Other ethics e-learning programmes are available for employees who need them in their daily activities.

Alstom values and ethics are included in the induction programme for new employees. In addition, employees have access to the Ethics section on the Alstom intranet site where they can find detailed guidelines and tools.

Consequences of violations of corporate policies

All employees are personally responsible for ensuring that their conduct and that of those reporting to them fully complies with this Code of Ethics and all applicable Corporate Instructions. Violations of certain instructions may have a severe and/or lasting impact on Alstom's image, business relations and financial situation. Where circumstances warrant, Alstom may seek civil or criminal prosecution and apply relevant internal measures.

The Code of Ethics serves as a guide to our standards and does not replace the Group Instructions, which outline the rules of conduct summarised in this document. All employees must refer to the operation rules relevant to their responsibilities detailed in the Group's "e-Book", compilation of the Group Instructions as well as the Sectors directives, available on the Alstom intranet site.



OUR CORE VALUES

We share three essential values - Trust, Team and Action - corresponding to the way in which the Group has defined its fundamental rules.

Trust

Alstom, with its activities, several management structures, units, production sites and countries, is by definition a complex company. Mutual trust between colleagues and management is essential for the proper conduct of our business and the efficient management of our projects.

This trust is built on the **responsibility** given to each decision-maker, the **delegation** of authority given and the **belief** of all employees in the importance of their role in the Group's well-being and development. It is also built on the **openness** of each individual to his or her professional environment, ensuring **transparency,** which is vital in the management of risks.

Team

Alstom's business is based on delivering projects which require our collective **discipline** and efforts to execute them successfully, and **networking** to ensure we take full advantage of all the competencies available. This team spirit, supported by the desire to **develop each employee,** extends to our collaboration with our partners and customers.

Action

Alstom commits to delivering products and services to its customers which meet their expectations in terms of price, quality and delivery schedules. To meet our commitments to our customers, action is a priority for all of us.

Action is built on **strategic thinking,** established at Group and Sector level, and underlined by our sense of **customer orientation,** integrated into our daily activities and into each project. Action involves adopting a **sense of urgency** in our activities, **speed of execution** to differentiate us from our competitors, and the ability to **report** ensuring the achievement of our business objectives. **Leadership** is essential to drive action.

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Fax: + 33 1 41 49 79 30

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www.alstom.com

APPENDIX A

VENDOR ADDITIONAL INFORMATION REQUESTS

1. *Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.*

   Refer to Proposal Appendix A Attachment for this document.

2. *Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.*

   Ansaldo STS S.p.A. (Parent Company), Via Paolo Mantovani, 3-5 Fiumara, 16151 Genova, Italy (Phone: 39 010 6552234)

   Finmeccanica S.p.A. (40% shareholder): Piazza Monte Grappa, 4, Rome, 00195, Italy (Phone: +39 06.324731)

   Norges Bank (2.045% Share): P.O. Box 1179 Sentrum, 0107 Oslo, Norway (Phone: + 47 22 31 60 00)

   Columbia Wanger Asset Management LLC (2.081% share): 227 West Monroe Street, Chicago Il 60606 (Phone: 888-244-5674)

   Altrinsic Global Advisors LLC (2.092 % share): Sound Shore Dr # 1, Greenwich, CT 06830-7254 (Phone: 203-661-0030)

   (All other shareholders own less than 1%.)

3. *Provide the names, title and telephone numbers of all officers.*

   Thomas P. Lawton III, President & CEO, 412-688-2400

   Joseph R. Pozza, Vice President – Administration & Finance (412-688-2400)

   Jason G. White, Vice President – Sales & Business Development (412-688-2400)

   Roberto Passalacqua, Vice President – Delivery (412-688-2400)

   Raphael Ferreira, Vice-President – Human Resources (412-688-2400)

   Michael F. O'Connell, Secretary (412-688-2400)

4. *Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.*

   Not directly. For all prior MBTA contracts, Union Switch & Signal and Ansaldo STS USA have served as a subcontractor to a Prime Contractor awarded these contracts.

5. *Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.*

   No

6. *Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.*

No

7. *Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.*

None

8. *Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.*

Willis of Pennsylvania, Inc.
Four Gateway Center
Suite 505
404 Liberty Ave.
Pittsburgh, PA 15222
Contact: Mary Gallagher
Phone: 412-586-1400
Account Number: Confidential/not available

9. *Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.*

Primary Banking Institution:

J.P. Morgan Chase
50 South Main St.
2nd Floor, OH2-5164
Akron, OH 44308
Contact: John M. Batcho
Phone: 330-972-1815

Credit Reference 1*:

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Piazza Monte Grappa, 4
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Contact: Raffaella Luglini
Phone: +39 06.324731

Credit Reference 2*:

Ansaldo STS S.p.A.
Via Paolo Mantovani
3-5 Fiumara
16151 Genova, Italy
Contact: Roberto Corsanego
Phone: +39 010 655 2076

*Note: No other potential credit reference organizations outside of Ansaldo STS USA corporate family engaged, therefore are not available.

10. *Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?*

    No

11. *Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity.*

    Refer to Proposal Appendix A Attachment for this document.

12. *Provide the business's current code of business ethics or equivalent.*

    Refer to Proposal Appendix A Attachment for this document.

The Commonwealth of Massachusetts
Secretary of the Commonwealth
State House, Boston, Massachusetts 02133

William Francis Galvin
Secretary of the
Commonwealth

January 8, 2014

TO WHOM IT MAY CONCERN:

I hereby certify that according to the records of this office,

UNION SWITCH & SIGNAL INC.

a corporation organized under the laws of **Delaware** on **November 13, 1996** was qualified to do business in this Commonwealth on **December 13, 1996** pursuant to the provisions of Massachusetts General Laws.

I also certify that the corporation's certificate of authority to conduct affairs in this state was revoked under the provisions of General Laws on **March 31, 2008**.

I further certify that the corporation was reinstated to do business in the Commonwealth on **September 20, 2012** pursuant to the provisions of General Laws. I also certify that said corporation is not delinquent in filing annual reports required to date.

In testimony of which,
I have hereunto affixed the
Great Seal of the Commonwealth
on the date first above written.

William Francis Galvin

Secretary of the Commonwealth

Processed By:tpg

WE BELIEVE IN A SUSTAINABLE FUTURE

ANNUAL REPORT
2012

Ansaldo STS
A Finmeccanica Company

SUSTAINABILITY REPORT
IN INSIDE BACK COVER

Welcome to Ansaldo STS

A company limited by shares, listed since 2006, leader in signalling and rail and subway transport systems, through its *Signalling* and *Transportation Solutions* Business Units, operating in over 30 countries worldwide.

Highlights 2012

(IAS *compliant* amounts in EUR million)

Orders

Order-book

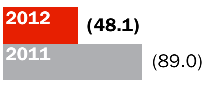
Revenues

EBIT

ROS

Net Profit

Net Working Capital



Net Cash

Analysis of the Income Statement, the Balance Sheet and the Financial Position

Consolidated profit for 2012 totalled €75,696 thousand, compared to €73,056 thousand in 2011.

Revenue came to €1,247,849 thousand, up €35,905 thousand over the previous year (€1,211,944 thousand).

The increase is largely due to the *Transportation Solutions* Business Unit for works carried out under the master agreement with Rio Tinto (RAFA).

The ***Signalling*** **Business Unit** recognised revenue of €725,588 thousand, including amounts with other business segments, substantially in line (down €2,787 thousand) with the previous year (€728,375 thousand).

The ***Transportation Solutions*** **Business Unit** recognised revenue of €564,853, up €52,586 thousand over the previous year (€512,267 thousand). This figure also includes amounts with other business segments.

Compared to 2011, eliminations between the two Business Units were up €13,894 thousand.

Operating profit (EBIT) came to €117,073 thousand, up €953 thousand over 2011 (€116,120 thousand).

ROS was 9.4%, compared to 9.6% in the previous year, including additional non-recurring expense, especially in relation to restructuring.

Specifically:
- the *Signalling* Business Unit recognised operating profit of €62,530 thousand, compared to €75,079 thousand, with a €12,549 thousand decrease due to the different mix and profitability of the projects in the two years;
- the *Transportation Solutions* Business Unit recognised operating profit of €69,130 thousand, up €14,121 thousand on the previous year (€55,009 thousand), due to greater volumes and the different mix and profitability of the contracts in the two years.

Net invested capital totalled €167,184 thousand, compared to €134,462 thousand in 2011.
The €32,722 thousand increase is due to the €8,162 thousand decrease in non-current items and the €40,884 thousand increase in net working capital.
The change in working capital is due to the joint effect of increased work in progress and trade receivables, only partly offset by the increase in trade payables and progress payments and advances from customers.

The **Group's net financial position** (loan assets and cash and cash equivalents greater than loans and borrowings) was €301,982 thousand, compared to €289,674 thousand at 31 December 2011 (up €12,308 thousand), after the €28,000 thousand dividend payment (€33,592 thousand in 2011). It includes the €70,643 thousand advance received from the Russian customer, Zarubezhstroytechnology ("ZST"), for the project for the development of signalling, automation, telecommunication, power supply, security and ticketing systems on the Sirth to Benghazi section in Libya.

Link

"Ansaldo STS creates economic value and distributes it to its stakeholders, who have contributed to its production."
> Please see page 55 of the 2012 Sustainability Report for further information

"Ansaldo STS enters into reciprocally beneficial relationships with society through: relations with institutions, research projects conducted with domestic and EC public entities, trade associations, partnerships with universities, media relations and community relations. It takes part in charity campaigns and finances humanitarian, environmental and cultural initiatives."
> Please see pages 123-133 of the 2012 Sustainability Report for further information

Income Statement (€ 000)

	31.12.2012	31.12.2011
Revenue	**1,247,849**	**1,211,944**
Purchases and personnel expense (*)	(1,122,374)	(1,075,627)
Amortisation, depreciation and impairment losses	(20,768)	(13,410)
Other net operating income (expense) (**)	17,922	(533)
Change in work-in-progress, semi-finished products and finished goods	897	(3,915)
Adjusted EBIT	**123,526**	**118,459**
Restructuring costs	(6,453)	(2,339)
Operating profit (EBIT)	**117,073**	**116,120**
Net financial expense	(2,956)	(768)
Income taxes	(38,421)	(42,296)
Profit for the year	**75,696**	**73,056**
attributable to the owners of the Parent	*75,665*	*72,956*
attributable to non-controlling interests	*31*	*100*
Earnings per share		
Basic and diluted	0.51	0.48[1]

1. Recalculated following the bonus issue of 9 July 2012

Notes to the reconciliation between the reclassified income statement and the income statement included in the consolidated financial statements:
(*) Includes the captions "Purchases", "Services", "Personnel expense" and "Accrual to (use of) the provision for expected losses to complete contracts" (net of "Restructuring costs"), and net of "Internal work capitalised".
(**) Includes the net amount of "Other operating income" and "Other operating expense" (net of restructuring costs and impairment losses and Accrual to (use of) the provision for expected losses to complete contracts).

Statement of financial position

(€ 000)	31.12.2012	31.12.2011
Non-current assets	264,996	270,047
Non-current liabilities	(49,665)	(46,554)
	215,331	**223,493**
Inventories	131,584	129,936
Contract work in progress	313,096	283,302
Trade receivables	748,747	680,069
Trade payables	(500,563)	(431,851)
Progress payments and advances from customers	(710,720)	(706,735)
Working capital	**(17,856)**	**(45,279)**
Provisions for risks and charges	(15,842)	(23,136)
Other liabilities, net (*)	(14,449)	(20,616)
Net working capital	**(48,147)**	**(89,031)**
Net invested capital	**167,184**	**134,462**
Equity attributable to the owners of the Parent	468,739	423,014
Equity attributable to non-controlling interests	427	1,122
Equity	**469,166**	**424,136**
Net financial position	**(301,982)**	**(289,674)**

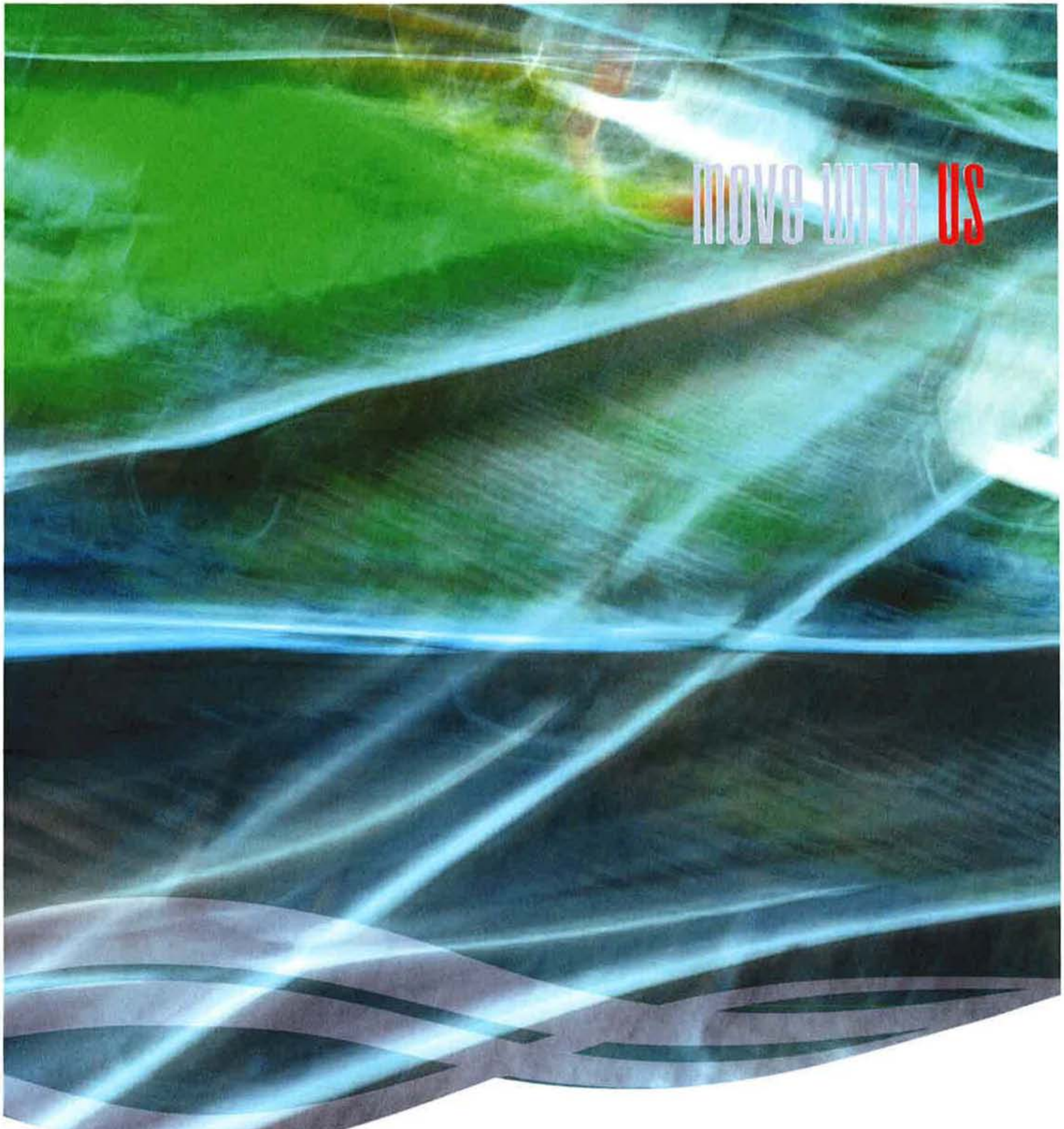
Notes to the reconciliation between the reclassified statement of financial position and the statement of financial position included in the consolidated financial statements:
(*) Includes "Tax assets" and "Other current assets", net of "Tax liabilities" and "Other current liabilities".

Net Financial Position (€ 000)

	31.12.2012	31.12.2011
Current loans and borrowings	18,188	14,535
Non-current loans and borrowings	-	269
Cash and cash equivalents	(146,837)	(160,928)
BANK LOANS AND BORROWINGS	**(128,649)**	**(146,124)**
Related party loan assets	(120,533)	(2,531)
Other loan assets	(52,987)	(110,812)
Current financial assets at *fair value* through profit or loss	-	(30,756)
LOAN ASSETS	**(173,520)**	**(144,099)**
Related party loans and borrowings	-	-
Other current loans and borrowings	187	380
Other non-current loans and borrowings	-	169
OTHER LOANS AND BORROWINGS	**187**	**549**
NET FINANCIAL POSITION	**(301,982)**	**(289,674)**

Statement of cash flows (€ 000)

	31.12.2012		31.12.2011	
Opening cash and cash equivalents	**160,928**		**153,320**	
Gross cash flows generated by operating activities	153,306		127,299	
Changes in other operating assets and liabilities	(58,279)		(67,235)	
Funds from operations		**95,027**		**60,064**
Change in working capital	(51,001)		(42,657)	
Cash flows from operating activities	**44,026**		**17,407**	
Cash flows used in ordinary investing activities	(6,457)		(10,188)	
Free operating cash flow		**37,569**		**7,219**
Strategic transactions	(216)		(6,302)	
Other changes in investing activities	14		(44)	
Cash flows used in investing activities	**(6,659)**		**(16,534)**	
Dividends paid	(28,000)		(33,592)	
Cash flows generated by (used in) other financing activities	(22,849)		38,955	
Cash flows from (used in) financing activities	**(50,849)**		**5,363**	
Exchange rate gains and losses, net	**(609)**		**1,372**	
Closing cash and cash equivalents	**146,837**		**160,928**	



ANNUAL REPORT 2011

AnsaldoSTS
A Finmeccanica Company

Report on Operations for 2011 and Business Environment

In a scenario marked by an ever-stiffer competition, for the Ansaldo STS Group the year 2011 marked a considerable commercial success involving a volume of acquisitions greater than EUR 2 billion, an all-time high, on both business segments.

Link

"Ansaldo STS is committed to maintaining and developing a set of distinctive abilities and skills which will create value and ensure the company's lasting growth over time."

> Please see page 77 of the 2011 Sustainability Report for further information

Signalling Business Unit

The orders acquired at 31 December 2011 came to EUR 1,045.9 million, greater than the orders acquired in 2010 (EUR 890.2 million).
The order backlog came to EUR 2,341.4 million from EUR 2,090.6 million at 31 December 2010.

The main events of the year referring to the *Signalling* Business Unit are outlined below.

ITALY

In **Italy** the market recovered significantly, especially in the upgrade of the existing lines. This allowed the company to win the contract for the Turin-Padua line (EUR 210.5 million), which is a part of the European Corridor D (Lisbon-Kiev). The supply includes the systems for traffic operation along the line and at stations, the related integrated diagnostics systems, as well as the supply of several auxiliary equipment.

Good was the volume of acquisitions on traditional business segments: HSL completions and upgrades; construction and upgrading of several automation equipment (SCC Control Traffic Center); sale of components and assistance and maintenance services.

REST OF EUROPE

Particularly significant results were also achieved in the rest of Europe.

In **France**, contracts worth more than EUR 120 million were acquired for the new high-speed lines: one directly from SNCF for the second stage of the LGV EE, two from the General Contractors that will build the "Bretagne-Pays de Loire HSL" with Eiffage, and "LGV SEA " with Inneo using Project Financing.
Still in France it is worth remembering the umpteenth extension of the contract with RATP for the maintenance of some lines of the Paris Metro, for an amount of some EUR 18 million.

In **Germany**, the company received the second contract from Deutsche Bahn for the HSL ERTMS2 equipment plan, thus confirming the business leader in the prestigious and challenging German market as well. This new contract covers the designing, supply, installation and operation and service of ERTMS/ETCS Level 2 signalling systems along the Rostock-Berlin line, for an amount of EUR 14 million.

In **Sweden**, in the Mass Transit segment, a contract was acquired for the CBTC technology-based upgrade of the wayside and onboard equipment of the Red Line of the Stockholm Metro, for an amount of EUR 85 million.

In **Turkey** agreements were formalised with the Italian-Turkish JV Salini-GCFKolin for the supply of the signalling, automation and railway telecommunications systems for the Gebze-Kosekoy section of the Ankara-Istanbul high-speed line for an amount of EUR 31.5 million.

NORTH AMERICA

During the period there were no commercial events of particular relevance. The traditional sale of wayside and onboard equipment continued for the traditional customers in **Canada** and the **USA**, both in the Railroads and the Mass Transit segment.

ASIA - PACIFIC

The **Australian** market is on the mend, especially in the mining lines segment. This generated a significant offer. However, in the year 2011 new acquisitions were modest in the amount of EUR 30 million.

In **India**, on the other hand, a contract was acquired from Kolkata Metro Rail Corporation Limited (KMRCL) for an amount of EUR 46 million for the designing, construction, installation and testing of the control, signalling and communication systems of a new section of the Calcutta Metro.

In **China** the major acquisition for the year regards

line 1 of the ZhengZhou traditional underground for an amount of EUR 9 million.

Finally, in **South Korea**, a contract was acquired for the construction of systems for the Uhi-Shinseoul driverless metro with POSCO for EUR 20.0 million.

well as for the Trento-Malè line. Equipment at Palermo station is being installed. As regards the newly-acquired large facility for the Genoa multistation equipment, activities were slower than scheduled due to delays in civil contracts and track-laying, which are preparatory to the works of the Company.

Performance of the *Signalling* Business Unit

(EUR 000)	31.12.2011	31.12.2010	Change
New intake orders	1,045,870	890,205	155,665
Order backlog	2,341,367	2.090,584	250,783
Revenue	728,375	841,831	(113,456)
EBIT	75,079	104,232	(29,153)
R.O.S.	10.3%	12.4%	-2.1 p.p.
Operating working capital	111,449	300	111,149
Research and Development	32,475	33,053	(578)
Headcount (no.)	3,081	3,315	(234)

The figures in this table are inclusive of transactions with other segments.

Revenue at 31 December 2011 was EUR 728,375 thousand from EUR 841,831 thousand in 2010.

Below is an overview of the most relevant production events.

ITALY

As regards the High Speed programme, the activities for the existing lines were essentially completed, except for continuous but small maintenance and upgrading of control equipment.

Through the Consorzio Saturno, for the future Milan-Genoa and Brescia-Treviglio lines, designing commenced ahead of the signing of the relevant contracts, which envisage very short times for the designing stage.

In the onboard SCMT segment, the supply of equipment for the Trenitalia rolling stock continued under the applicable Master Agreement.

Good was the volume of activities generated by orders of other railway companies and builders of rolling stock intended for circulation in Italy.

In particular, for AnsaldoBreda production continued for the SCMT systems of high-frequency trains (TAFs), for regional trains (TSR), both intended to Ferrovie Nord Milano and for Vivalto double-decker carriages for Trenitalia; development activities continued for the 50 new V300 Zefiro High-Speed trains and equipment for the first two trains were tested.

In the Station equipment segment, almost all of the activities were completed for the systems of the Naples, Venezia-Mestre, Pisa, and Milano-Rogoredo junctions as

The Turin-Padua Line is worth a specific mention. Production mainly regarded detailed engineering, which was completed in due time, and the relevant documentation was delivered to the customer. Development activities continued mainly for the release of the key prototypes for the later stages of procurement and designing.

In the Mass Transit segment, in cooperation with the Transportation Solution Business Unit, the major activities regarded the supply of systems for Line B1 of the Rome Metro, De Ferrari - Brignole line of the Genoa Metro, Line 1 Dante-Garibaldi of the Naples Metro, Line 6 of the Naples Metro.
As regards the latter, development activities continued for the Metropolitan Border of the Mostra-Mergellina section.

The year saw growing volumes of assistance and maintenance activities, mostly for RFI and Trenitalia, the result of large quantities of systems and equipment supplied to these customers in the last years.

REST OF EUROPE

(This section also includes Turkey and the FSU)

In **France** activities mostly regarded onboard systems (*TG Rhin-Rhône*) and equipment (*Thalys*) for the French high speed network, as well as the usual orders for maintenance, assistance and manufacturing of spare parts.

In **Sweden** the *Ester* project is being fully developed for the construction of an ERTMS level 2 system on the Ester line in the Northern part of the country.

The project for the upgrade of the *Red Line* of the Stockholm Metro is also being developed using CBTC technology.

In the **UK**, during the year the operation stage was completed for the project for the *Cambrian line* (the first line on British soil to be equipped with the ERTMS level 2 European standard). This allowed the settlement of some contractual claims of the customer.

In **Germany** testing and operation activities commenced on the equipment installed on the Saarbrücken - Mannheim line, which is part of the interoperable European corridor (*Paris-Ostfrankreich-Südwestdeutchland*).
Preliminary designing activities started on a similar contract acquired during the year for the track laying of the Rostock-Berlin line.
As regards the onboard project for the supply of 30 multistandard equipment for 15 HS *Velaro* trains, manufacturing activities continued during the year and some additional functional implementations were defined with the customer.

In **Russia** preparations were completed for the start of the testing of the *Itarus* system, a system designed by Ansaldo STS with NIJAS (the research body of the Russian railways) for the introduction of the ERTMS standards in the physical and operating environment of the Russian territory.

In **Turkey** detailed engineering continued on the Mersin-Toprakkal line. As the Customer gave the necessary approvals, onsite assembly commenced. Activities resumed with new strength for the Ankara metro, after the title of the contract changed from the municipality to the Ministry of Transportation.

In **Kazakhstan** all the productive activities that had commenced on the Khorgos-Zhetysen line project, as part of the Joint Venture formed with the local railways, were formally interrupted by the customers and negotiations are under way for the redefinition of the scope of work of the JV.
Therefore, it was considered prudent not to include the finishing amount of the project (some EUR 45 million) in the Group backlog, given the persistent uncertainty.

NORTH AFRICA AND THE MIDDLE EAST
The performance of the activities planned for the year 2011 in Tunisia and mostly Libya was adversely affected by the political riots in the region.

In **Tunisia** activities resumed at the end of the year, and activation of the signalling and automation systems in the Tunis suburban line is nearing completion.

In **Libya**, immediately after riots started, activities were suspended for the project for the construction of the signalling, telecommunications, security and power supply system for the Ras Ajdir-Sirth and the Al Hisha-Sabha lines.
These activities have not resumed for the time being. The project for the construction of a similar system for the Sirth-Benghazi section was also suspended by the customer, the construction company of the Russian Railways Zarubezhstroytechnology (ZST), with letter dated 21 February 2011.
Contacts are under way with this organisation in order to agree upon extending the period of suspension of the contract.
At present it is difficult to assume that these contracts may be resumed, given the situation of the country.

AMERICA
Production came from both system works on projects lasting several years and from the sale of components. For the first segment, activity was extensive for the customer Union Pacific on the OTP/CADX project.
In 2005 Ansaldo STS USA won the contract for the development and implementation of the *Next Generation Computer Aided Dispatch* (CAD) and of an *Optimizing Traffic Planner* (OTP) system, as well as maintenance until 2030.
During the year the OTP was activated in all the Western regions and in most of the Southern areas. The completion in all the regions (34 overall) is expected in 2012. As regards the development of the CADX Office, 90% of the subsystem requirements were approved by Union Pacific.
In the Mass Transit market, manufacturing regarded several contracts with various public transport authorities: NYC - 5^{th} and Lexington, WMATA - Red Line, PATH PTCC - Office, Port Authority of Allegheny Co, LIRR-Harold Interlocking.

ASIA - PACIFIC
In **Australia** activities were carried out with several customers, mostly using *alliance* contracting.
In particular, works worth noting are those for the Newcastle Alliance, the Synergy Alliance, the Richmond Line Alliance, the K2RO Project, and the NCIG-Coal Export Terminal.

In **India**, manufacturing mainly focussed on these projects, all with the Indian federal railways.
Since its inception, the KFW project has been upgraded and changed with variations and this caused a delay in the performance timeline together with a number of technical problems which were finally resolved during 2011. Thanks to this, the first systems were delivered for operation. After a long series of technical and operational difficulties, solutions to be implemented

with the customer were sufficiently defined for the two projects (North and South) for equipping wayside and onboard systems with devices for the Train Protection and Warning System (TPWS).

In **South Korea** the cooperation with Rotem involved the supply of equipment for some types of engines. During the year line testing was carried out with positive results.

In **China**, the ZhengXi Line project is now ending; the major activities regarded the Transfer of Technology (ToT) to the local partner Insigma.

EBIT of the Signalling Business Unit at 31 December 2011 came to EUR 75,079 thousand (10% of the value of revenue), lower than the amount of December 2010 (EUR 104,232 thousand) due to smaller volumes and the freezing of the new contracts in Libya.

Operating Working Capital at 31 December 2011 totalled EUR 111,449 thousand, up from EUR 300 thousand at 31 December 2010 as a result of an increase in trade receivables, inventories and work in progress.

Research & Development costs at 31 December 2011 amounted to EUR 32,475 thousand, essentially in line with the figures for the prior year (EUR 33,053 thousand).

Headcount at 31 December 2011 totalled 3,081 people (3,315 at 31 December 2010); it includes the containment of resources as part of the reorganisation process.

Transportation Solutions Business Unit

The orders acquired at 31 December 2011 came to EUR 1,256.1 million compared with EUR 1,142.8 million at 31 December 2010.

The order backlog came to EUR 3,442.3 million from EUR 2,721.5 million at 31 December 2010.

The significant events of 2011 for the various geographical areas are outlined below.

ITALY

In Italy, the overall amount of orders acquired at 31 December 2011 amounted to more than EUR 120 million. The most important acquisition, for more than EUR 105 million, relates the extension of Line 5 of the Milan Metro (south-westbound extension from Garibaldi to San Siro). The line will extend for a further 7 km with 10 new stations. Ansaldo STS technology will be used on the fully driverless system.

Projects under way include the award of the tender - under Project Financing - for Line 4 of the Milan Metro (S. Cristoforo-Linate) to the Grouping of Impregilo (leading company), Astaldi, Ansaldo STS, AnsaldoBreda, Sirti and ATM Milano.

The concession agreement and the loan agreements will be effective, hopefully in a short time, after the competitors have filed their appeals.

REST OF EUROPE

Generally, the global macroeconomic scenario is still affected by the financial crisis that caused many projects to be delayed, in particular in the Eastern European area, where the development programmes driven by the European Community do not seem adequate to fully finance the major expansion projects for the transport networks of some capital cities.

In **Denmark**, as part of the contract formerly acquired for the Copenhagen Cityringen driverless metro, the customer decided to give the order for trains to Ansaldobreda through Ansaldo ATS, which is in charge of the construction and integration of all the technological works.
This allowed an order for a further EUR 120 million.

NORTH AFRICA AND MIDDLE EAST

During the period there were no new acquisitions, but several promotion and offering activities were initiated, especially in **Qatar**, which is one of the countries with the most ambitious infrastructure development plans, such as Saudi Arabia.

ASIA - PACIFIC

The amount of the orders acquired in **Australia** in this business segment was more than EUR 151 million, all deriving from the master agreement made with the mining company Rio Tinto for the technological equipment of new and existing railway lines to transport iron ores from the Pilbara region in Western Australia to the ports along the coast.

In **India** consideration is being given to possible partnerships with local contractors in order to take part in future tenders.

NORTH AMERICA

The most important event of the year is undoubtedly the signing of the contract for the construction of the Honolulu Metro.

In November 2011 Ansaldo Honolulu Joint Venture, the consortium formed by Ansaldo STS and AnsaldoBreda, signed with HART (Honolulu Authority for Rapid Transportation) a contract for the construction of the technological part and for the supply of the new driverless metro trains in the City of Honolulu (Hawaii). The contract, worth USD 1,334 million overall, covers the designing, construction, operation and maintenance of the new driverless metro line in Honolulu, which will be 32 km long entirely on flyover tracks along 21 stations. Ansaldo STS share amounted to EUR 841.8 million.

The designing and construction of the full line will have a duration of 8 years, the operation and maintenance of the line will commence in 2015 for the first functional section, and in 2019 throughout 2029 for the entire line. Performance of O&M for the years 2025 - 2029 for an amount of EUR 224.7 million will be checked by the customer.

Performance of the *Transportation Solutions* Business Unit

Revenue of the *Transportation Solutions* Business Unit at 31 December 2011 amounted to EUR 512,267 thousand from EUR 504,448 thousand at 31 December 2010.

The volumes were developed in Italy (55%) and abroad (45%), with 78% regarding the metro rail sector. Production developed on the projects for high-speed trains, the Rome Metro Line C, Copenhagen Metro, Milan Metro, Genoa Metro, Thessaloniki, Alifana, Naples Metro Line 6, Naples Metro Line 1, Brescia Metro, Riyadh Metro, Malaysia and Australia Metros. Below is an overview of the most significant production events.

(EUR 000)	31.12.2011	31.12.2010	Change
New intake orders	1,256,058	1,142,756	113,302
Order backlog	3,442,345	2,721,540	720,805
Revenue	512,267	504,448	7,819
EBIT	55,009	46,294	8,715
R.O.S.	10.7%	9.2%	+1.5 p.p.
Operating working capital	(172,411)	(105,299)	(67,112)
Research and Development	1,425	1,774	(349)
Headcount (no.)	600	449	151

The figures in this table are inclusive of transactions with other segments.

ITALY

High-Speed Railways

In the High Speed segment, marginal activities continued on existing lines for the operation of some new interconnections and for assistance works covered by warranty; activities for the designing of the new sections Treviglio - Brescia and Milan-Genoa 3° Valico del Giovi - for which contracts are to be formalised yet - started with interruptions.

Metrogenova

Regarding the functional line De Ferrari–Brignole, during the year activities were carried out for the supply of technological equipment, for equipment assembled along the line and at Brignole station.
Operation activities also started.
The flood that hit Genoa and our building site in November caused the operational programme to be postponed: opening to the public is now estimated in September 2012.
Regarding the Dinegro Depot, the customer decided to assign to the Company the construction of a part of the structures above the depot, with a variation that is currently being approved.

Alifana Regional Line

During the second quarter an Agreement was signed for the price increases in construction materials, accounted in previous years.
The Licensor Metrocampania Nordest prepared and transmitted to the Campania Region a new text for the Addendum to replace the one signed in March 2010.
In November the Submission Deed for the Scampia Underpass was signed and the works covered by the civil and technological variations were regularised.
Still in November the deed for the suspension of the works of Melito station, lot A, with a specific reserve for the refund of all the greatest resulting charges and damages.
With reference to the credit position of the Temporary Business Grouping, and of the Associates accordingly, during the year legal actions were initiated to protect former entitlements.
At the same time, contacts continued with the Campania Region for the definition of a settlement that is satisfactory for all the parties.
With regard to the Piscinola-Capodichino line, Metrocampania Nordest as Contractor has not delivered the areas and works in Lot A yet, as envisaged in the Integrated Contract.
The Temporary Business Grouping, of which the company is the agent, formalised a specific reserve for the refund of all the greatest resulting charges and damages.

Naples Metro Line 6

The year was marked by significant events in terms of techniques and construction. In particular, as regards the Line Tunnel, excavation was completed in October as the TBM/EPB arrived at the site of the Municipio station, where facilities have already been built for dismantling. The traditional 3-km long tunnel built has 1,700 lining segmental rings, has a single tube, and stretches from the Mergellina station to the Piazza Municipio areas.
With regard to the stations A.Mirelli, S.Pasquale, Chiaia and Municipio works continued at different paces because of the peculiar events of the year. Works were dramatically delayed in the last few years because the level of archaeological excavation was reached.
Finally, as regards the Municipio site, during the year archaeological surveys continued on the station shaft areas, and as a result planned activities were delayed.
With regard to the significant credit position of the contract, the Company initiated proceedings to have an injunction issued against the Municipality of Naples for the collection of the amounts due.

Rome Metro Line C

Works in the outdoor section linking Pantano-Torrenova and the Pantano Depot were essentially completed; tests, especially subsystem, interface functional tests and preventive functional tests, are under way.
As regards the works for underground stations in the tunnel section linking Giardinetti and Centocelle, rough works, floors and covers of the various levels are being completed, and platforms were enlarged. As regards the line, the construction of the large concrete slab is being completed and the assembly of emergency

platforms is nearing completion; the laying of tracks and of the primary cable paths commenced.

Milan Line 5

On the functional line linking Bignami and Zara assembling activities and the operation of most of the telecommunications systems were completed. Following the request of the municipality of Milan for temporarily opening to the public the functional line Bignami-Zara for the "Family Week" at the end of May 2012, it was determined that a shuttle service will operate on a single track, with two trains at Bignami and Zara stations not stopping at the other stations. The service will be driverless with officers on board and at stations at the end of May. To that end commissioning activities were adjusted.
The final activation of the Bignami-Zara line is scheduled at the end of October 2012.
With regard to the extension of the line to San Siro station, the detailed engineering is under way and will be completed within December 2012. Orders were issued for all the supplies, while the contract for the assembling of the signalling equipment will be completed next year. The civil partner is carrying out activities for moving subservices, the construction of the station bulk heads and the preparation of the first two TBMs.

Naples Metro Line 1

The contract relates to the construction of the works for the contact line, power supply, telecommunications, signalling and automation and the protection systems on the 5-km line entirely in the tunnel. During the year a section linking Dante and Università (March 2011) was activated in a shuttle configuration (down line track). It is expected that in 2012 Toledo station be included in the shuttle route that is now operating and that the entire section linking Dante and Garibaldi be completed with a carousel configuration which will be final (December), except for Municipio and Duomo, for which completion is expected in 2013 and 2014 respectively.

Metro Brescia

During the year the construction designing was fully developed and installations along all of the line are nearing completion, with the exceptions of details for civil finishings and minor works at the depot workshop. On-site activities are mainly related to the operation of the ATC subsystem, of vehicles, and to the system integration on the functional line and on the rest of the line, which will continue throughout September. System operation is expected at the end of December 2012. The year was marked by the settlement of the dispute between ATI and Brescia Mobilità through a settlement agreement that redefined the reference programme, allowed ATI a part of the expenses incurred for time extension and variations made after works had commenced, and determined how the company in charge of the *Operation and Maintenance* of the system will work.

REST OF EUROPE

Thessaloniki Metro

The designing phase on which the Company is working at the moment, named the General Final Design 2 (GFD2), was marked in 2011 by two key events: the substantial approval by the Customer of the Company's technical proposal on the new CBTC architecture for the signalling system and the formalisation of the reservation submitted by the JV to the Customer regarding the damages incurred by the Partners of the B Group (ASTS and AB) at designing (GFD1 and GFD2).
In terms of programmes, according to the best estimate possible at the moment, works will be completed at the end of December 2007.
On the other hand, in November the Customer made an official request to the JV for a new programme where works are estimated to be completed by the end of 2015, even though this request is not accompanied by a genuine Customer commitment to promptly settle any payments still due. At present the estimated contract amount includes an estimate of delays due in part to the unfavourable economic conditions of the country.

Copenhagen

As regards the Cityringen contract, a new programme for the construction of the work was agreed upon with the customer and the civil works contractor.
The new programme brings the start of operations of the system forward to December 2017.
All the designing and interface definition milestones were reached during the year with the Civil contractor. The construction of the site was completed and pre-excavation activities started in the Depot area.

In 2011 the Operation&Maintenance contract performed greatly with Service Availability of 98.8% following improvements in operating procedures and system changes, in addition to the renewal of obsolete components.
The number of passengers reached its all-time high with some 54 million journeys/passengers.

NORTH AFRICA AND THE MIDDLE EAST

Riyadh Automated People Mover System (Apm)

During the year the construction designing activities and interfacing with civil works were completed. *Commissioning* activities are nearing completion.
During the first three months of the year, an agreement was signed with the Customer for the formalisation of a new timeline and new interim milestones.
In particular, the first one, the *Ceremonial Opening*, was

a full manual service on line 2 in May at the presence of the King.

ASIA - PACIFIC

Circular Line Taipei Metro
The Customer contracted only two of the three major contracts with civil enterprises, with a delay over the initial plan. Negotiations are under way for the formalisation of a time extension that covers these delays. It is to be reported that at the end of the year the CBS (*Contract Baseline Schedule*) was processed and submitted. Its approval caused the receipt of a huge amount as advance payment in December.

Australia
Production mainly developed on the projects related to the Framework Agreement of Rio Tinto (RAFA). In particular, activities on the Rail Capacity Enhancement and Hope Down 4 account for most of the revenue for the year and of the employment of Engineering and Construction entities' in-house resources. Activities continued for the preparation of operations for the ECP and the ATO projects and for the study phase for the remaining part of the programme.

Malaysia
Production mainly regarded the Malaysia North Double Tracking project. The most relevant event of the period was the settlement of the dispute with the Customer, at all levels, for the definition of the signalling technological solution to be adopted for the project. Negotiations are still being held for the work programme and for the request for a time extension to make up for the months spent identifying the reference technological solution.

EBIT for the Transportation Solutions Business Unit at 30 December 2011 came to EUR 55,009 thousand (10.7% of the value of revenue) compared with EUR 46,294 thousand at 31 December 2010 (9.2% of the value of revenue); this increase is a result of the different mix of orders worked in the two comparison periods.

Operating Working Capital came to a negative EUR 172,411 thousand, as compared with a negative EUR 105,299 thousand at 31 December 2010; this change is mainly attributable to the increase in advances from customers during the year.

Research & Development costs charged to the income statement amounted to EUR 1,425 thousand, mainly in line with the figure at 31 December 2010 (EUR 1,774 thousand).

Headcount at 31 December 2011 was equal to 600 units, up 151 units compared with 31 December 2010 (449 units). This change is attributable to the reallocation of resources, especially in Australia, made in the scope of the group reorganisation.

Link

"Ansaldo STS puts customer satisfaction at the centre of its strategy: the ability to understand the client's needs and expectations and to meet them is the central value on which the corporate culture is based."

> Please see pages 55 and 135 of the 2011 Sustainability Report for further information

Main Intake Orders

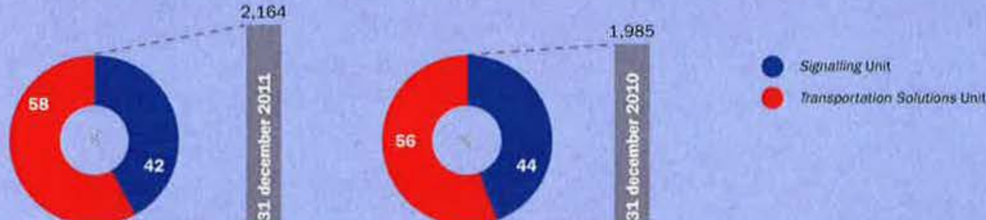
Signalling Unit

Country	Project	Customer	Value (EUR mln)
Italy	TO-PD Main Line (main orders and variation order)	RFI	210.5
Sweden	Stockholm Red line	S L	85.0
France	*HSL Bretagne - Pays de Loire	EIFFAGE	62.0
France	LGV SEA	INEO	46.7
India	Kolkata Metro	KMRC	46.1
Turkey	HSL Gebze-Kosekoy	Salini-CGF-Kolin	31.5
Australia	ARTC various projects	ARTC	30.0
Italy	HSL variation orders & price escalation	RFI	20.3
South Korea	Uhi-Shinseoul	POSCO	20.0
Italy	SCC-CTC variation orders	RFI	18.1
France	RATP Metro Paris Maintenance	RATP	17.8
France	LGVEE Phase 2	SNCF	15.0
Germany	Berlin-Rostock	D B	13.8
Canada	STM Montreal	STM	12.1
USA	Components, Service & Maintenance	Various	43.5
France	Other Components, Service & Maintenance	Various	29.7
Italy	Components, Service & Maintenance	Various	13.1

Transportation Solutions Unit

Country	Project	Customer	Value (EUR mln)
USA	Honolulu Metro	HART	841.8
Denmark	Copenhagen - vehicles	Metroselskabet	121.9
Italy	Milan Line 5 ext. Garibaldi-San Siro	Milan Municipality	105.2
Australia	Rio Tinto RAFA phase 1	Rio Tinto	70.0
Australia	Various Rio Tinto small projects	Rio Tinto	48.2
Australia	Rio Tinto RAFA phase 2	Rio Tinto	33.2
Saudi Arabia	Riyadh - PNU variation orders	SBG	11.8
Italy	Rome Line C variation	Roma Metropolitane	7.1

Orders by Business Unit at 31 December 2011 - 2010 (EUR millions)



Analysis of the Income Statement, the Balance Sheet and the Financial Position

Consolidated net profit for 2011 was €73,056 thousand as against €94,908 thousand in 2010. Revenues contracted from €1,283,710 thousand in 2010 to €1,211,944 thousand in 2011 - a reduction of €71,766 thousand.

This change was mostly attributable to the *Signalling* Business Unit, in which the gradual run-off of AV (high-speed) projects in Italy and the PRC, as well as of the projects to equip rolling stock with the SCMT system, was not offset by the development of new orders.

This circumstance was largely due to the stoppage, at the beginning of the year, of work on two important orders that the company had won in Libya.

In 2011 the *Signalling* Business Unit's revenues were €728,375 thousand, gross of transactions with other sectors - a reduction of €113,456 thousand from 2010, when they were €841,831 thousand.
The *Transportation Solutions* Business Unit's 2011 revenues were €512,267 thousand, gross of transactions with other sectors - a slight increase of €7,819 thousand over 2010, when they were €504,448 thousand.

2011 EBIT was €116,120 thousand - a reduction of €20,945 thousand from 2010 (€137,065 thousand).

The EBIT margin was 9.6% as against 10.7% in 2010.

In detail:
- the *Signalling* Business Unit's operating profit for 2011 was €75,079 thousand, a reduction of €29,153 thousand from the 2010 figure of €104,232 thousand, due essentially to lower production volumes and a different product mix.
- the *Transportation Solutions* Business Unit's operating profit was €55,009 thousand, an increase of €8,715 thousand over the 2010 figure of €46,294 thousand, due to the different product mix and higher profitability in the projects executed in both years.

Net Invested Capital was €134,462 thousand as against €63,311 thousand for 2010.
The change of €71,151 thousand was due to an increase in non-current assets of €5,929 thousand and growth in Net Working Capital of €65,222 thousand. The change in working capital was due to an increase in work-in-progress inventories and debtors, which was not offset by any increase in suppliers and principals' down-payments. Debtors increased due to the continuation of certain credit positions with the Parent, ASTS, in respect of some large Italian projects for the realisation of mass transit systems.

The positive Net Financial Position (i.e. the excess of financial assets and cash over financial indebtedness) was €289,674 thousand as against €318,150 thousand in 2010, a reduction of €28,476 thousand following the distribution of dividends in the amount of €33,592 thousand, (€30,982 thousand in 2010).
It should be noted that the 31 December 2011 financial position (€289,674 thousand) included a €70,643 thousand advance payment received from the Russian client Zarubezhstroytechnology in respect of the project to realise signalling, automation, telecommunication, power supply, security and ticketing equipment for the Sirth-Benghazi line in Libya.

Link

"Ansaldo STS creates economic value and distributes it to its stakeholders, who have contributed to its production."
> **Please see page 83 of the 2011 Sustainability Report for further information**

"Ansaldo STS enters into reciprocally beneficial relationships with society through: relations with institutions, research projects conducted with domestic and EC public entities, trade associations, partnerships with universities, media relations and community relations. It takes part in charity campaigns and finances humanitarian, environmental and cultural initiatives."
> **Please see page 149 of the 2011 Sustainability Report for further information**

Income Statement (EUR thousand)

	31.12.2011	31.12.2010
Revenue	1,211,944	1,283,710
Raw materials and consumables used and personnel costs (*)	(1,075,627)	(1,136,762)
Amortisation and depreciation	(13,067)	(13,215)
Impairment	(343)	(6,430)
Other net operating income (expenses) (**)	(533)	9,770
Change in work in progress, semi-finished and finished goods	(3,915)	2,338
Adjusted EBIT	**118,459**	**139,411**
Restructuring costs	(2,339)	(2,346)
EBIT	**116,120**	**137,065**
Net finance income (costs)	(768)	(3,854)
Income taxes	(42,296)	(38,303)
Net Profit (Loss)	**73,056**	**94,908**
Equity holders of the Company	*72,956*	*94,592*
Minority interests	*100*	*316*
Earnings per share		
Basic and Diluted	*0.56*	*0.73[1]*

(1) Redetermined following the free share capital increase of 4 July 2011.

Notes for reconciling the reclassified Income Statement and the Income Statement:
(*) Includes "Raw materials and consumables used", "Purchase of services" and "Personnel costs" (less restructuring costs), less "Work performed by the company and capitalised".
(**) Includes the net amount of "Other operating income" and "Other operating expenses" (less restructuring costs).

Statement of Financial Position (EUR thousand)

	31.12.2011	31.12.2010
Non-current assets	270,047	263,747
Non-current liabilities	(46,554)	(46,183)
	223,493	**217,564**
Inventories	129,936	127,632
Contract work in progress	283,302	216,928
Trade receivables	680,069	624,808
Trade payables	(431,851)	(403,133)
Advances from customers	(706,735)	(657,150)
Working capital	**(45,279)**	**(90,915)**
Provisions for short-term risks and charges	(23,136)	(22,417)
Other net assets (liabilities) (*)	(20,616)	(40,921)
Net working capital	**(89,031)**	**(154,253)**
Net invested capital	**134,462**	**63,311**
Capital and reserves attributable to equity holders of the Company	423,014	380,411
Minority interests in equity	1,122	1,050
Shareholders' equity	**424,136**	**381,461**
Net financial debt (liquidity)	**(289,674)**	**(318,150)**

Notes for reconciling the reclassified Statement of Financial Position and the Statement of Financial Position:
(*) Includes "Tax receivables" and "Other current assets", less "Tax payables" and "Other current liabilities".

Financial Situation (EUR thousand)

	31.12.2011	31.12.2010
Short-term borrowings	14,535	3,089
Medium and long-term borrowings	269	1,115
Cash and cash equivalents	(160,928)	(153,320)
BANK DEBT	**(146,124)**	**(149,116)**
Financial receivables from related parties	(2,531)	(149,150)
Other financial receivables	(110,812)	(21,212)
Current financial assets at fair value	(30,756)	-
FINANCIAL RECEIVABLES	**(144,099)**	**(170,362)**
Borrowings from related parties	-	-
Other short-term borrowings	380	822
Other medium- and long-term borrowings	169	506
OTHER BORROWINGS	**549**	**1,328**
NET FINANCIAL DEBT (LIQUIDITY)	**(289,674)**	**(318,150)**

Statement of Cash Flow (EUR thousand)

	31.12.2011		31.12.2010	
Cash and cash equivalents - opening balance	**153,320**		**128,541**	
Gross cash flow from operating activities	127,299		164,994	
Changes in other operating assets and liabilities	(67,235)		(50,311)	
Fund from Operations		**60,064**		**114,683**
Change in working capital	(42, 657)		(41,717)	
Cash flow from (used in) operating activities	**17,407**		**72,966**	
Cash flow from ordinary investing activities	(10,188)		(6,983)	
Free Operating Cash Flow		**7,219**		**65,983**
Strategic investments	(6,302)		-	
Other changes in investing activities	(44)		-	
Cash flow from (used in) investing activities	**(16,534)**		**(6,983)**	
Dividends paid	(33,592)		(30,982)	
Cash flow from financing activities	38,955		(12,795)	
Cash flow from (used in) financing activities	**5,363**		**(43,777)**	
Translation differences	**1,372**		**2,573**	
Cash and cash equivalents - closing balance	**160,928**		**153,320**	

Risks and Uncertainties

The risks described below stem from the consideration of the features of the market and business of the Ansaldo STS Group, together with the main results of the update of the Risk Assessment of processes. The Risk Assessment aims at identifying the main risks, with respect to the processes identified as relevant, and the relevant mitigating actions, as well as defining the additional actions to be taken to further reduce the risk or improve process performance.

The Risk Assessment process adopted by Ansaldo STS makes reference to the internationally recognised framework of the "Enterprise Risk Management" of the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO report) and purports to add the Risk Assessment to the processes for the planning and implementation of corporate goals, to create value based on appropriate risk management also by giving value to opportunities.

The main risks and uncertainties of Ansaldo STS and of the Group are presented below according to the classification adopted by the Group (strategic, operating, financial and disclosure risks). There may be risks that are unidentified or that have not been considered as being significantly material at the moment but which should however have an impact on the Group's business.

For the management of financial risks, reference should be made to the related explanatory notes.

Link

"Through its Internal Sustainability Committee, Ansaldo STS supplements its analysis of economic risk with that of social and environmental risks."
> Please see page 45 of the 2011 Sustainability Report for further information

Strategic risks

Competition in the market and efficiency programmes

The Ansaldo STS Group operates in a global market, which grows in the emerging countries and in the areas with a higher development rate and which increasingly tends to the standardization of products and technological solutions and to the globalization of markets (specifically in the signalling business sector). This entails an increase in trade competition and a tendency to price reduction, notwithstanding the growth in market volumes. The Group is therefore exposed to the risk of weakening its competitive ability, in the absence of an adequate standardisation of the solutions and the products offered and of a greater efficiency/optimisation in the use of resources during the performance of contracts and more generally in the operating management of the entire company. In response to this risk, it should be specified that the Group has adopted a new integrated organisation and operational structure in order to achieve a greater standardisation of solutions and products and, in general, to improve operational efficiency and efficacy. This change occurred since 1 January 2010 and ended up with the inclusion since 1 April 2011 in the new organization of the subsidiary in the USA.

The present market phase in a difficult economic trend requires increasingly determined actions to maintain margins and preserve the company value. In response to this risk, the Company started specific efficiency programmes in 2010 directed to reduce both external and internal costs, through the optimization of several operating processes.

Actions continued in the course of 2011 to implement the efficiency programmes together with the start-up of new initiatives.
The risk that these programmes may be carried out with results lower than expected or over a period of time longer than that fixed could adversely affect margins and company value. In response to this risk, the implementation of efficiency programmes is monitored through strict measures of Program Management.

These programmes also require an accurate process to plan in the medium/long-term the needs of internal and external resources; the lack of such a process may increase the risks connected with the effectiveness and prompt implementation of these programmes.

Changes in the macroeconomic scenario and efficiency objectives

The Ansaldo STS Group, as said above, operates in an international market and is therefore exposed to risks resulting from changes in the global macroeconomic scenario and in the reference markets. Various macroeconomic factors may have an impact on Group activities, such as growth rates in reference markets and public programmes of infrastructure investments.

The present economic recession period, the risk of a decline in the growth rate of the world economy and the programmes, either commenced or announced in several countries, for reducing public deficit might cause the annulment or postponement of contracts, delays in payments, less favourable financial conditions in new contracts, with a negative impact on Group performance.
In response to this risk, control structures have been created for the selection and assessment of commercial opportunities with a systematic and factual approach for the related definition of the contractual conditions in the scope of offer processes.
Specifically, the risk of delay in payments is emerging because of delays in government grants for the projects in progress both in Italy and in some foreign markets. These situations are being monitored constantly and supported by specific initiatives to mitigate the impact thereof. It should be pointed out that, the Group holds a positive financial position and generally has a solid capital and financial structure and a significant order portfolio (about four years of work) to tackle the present difficult economic trend.

Innovation as competitive factor

The businesses where the Group operates - transportation solutions and signalling - are marked by high levels of technological innovation representing an important competitive factor.
It is therefore paramount that the Ansaldo STS Group has the ability to support the present investment policy and to evaluate in a systematic and factual appropriate manner the return on investments in R&D directed to generate innovative solutions.
The Group may not assess in an appropriate manner the innovation needs, the contents of innovation and development projects, the benefits thereof and the resulting priorities, with the risk of not being in line with market needs, of a low economic return on the investment in innovation and on the project and the loss of commercial opportunities.
To mitigate these risks, there are corporate processes for the definition of the product portfolio and for the periodic verification of the technical competitiveness of products.
The characteristics and the already mentioned level of technological innovation pertaining to the products and the technical solutions of the Group determine a risk of obsolescence. Specific processes are being carried out to mitigate that risk effectively.

Link

"Ansaldo STS believes that innovation is an unvarying principle: to improve what is known and develop new solutions that increase transport systems' safety, energy efficiency and eco-compatibility."
> Please see pages 89 and 150 of the 2011 Sustainability Report for further information

Operating risks

Country risk with respect to new markets

The new market penetration policy, especially for higher developed markets, exposes the Group to these risks: the risk of political, social and economic instability, of an incorrect evaluation of local regulations (business, tax, signalling system validation regulations), the difficulty of protecting intellectual property, the fluctuation of exchange rates and the credit standing of the counterparties, with a negative impact on the Group's financial condition. The country risk is assessed during the process for the selection of offers and tenders to take part in. The opportunity to mitigate this risk and the definition of any related actions are taken into consideration when preparing the proposals.
Please refer to the relevant section of this report for the explanation of the status of the job-orders in Libya, suspended because of the riots occurred in the country and the delays recorded by the job-order in Greece exacerbated by the unfavourable economic trend of the country.

Public administration companies and contracts lasting several years

The Group's business mostly depend on public administration companies and, in particular in the transportation solution business, on significant contract lasting several years.

Any delays, changes, reviews or cancellation of one or more acquired relevant contracts lasting several years may adversely affect business and the economic and financial condition of the Group.

Moreover, the evaluation of the contracts lasting several years is based on the state-of-completion method and therefore uses estimates of the costs to be incurred for the completion of activities, of the project risks (technical, legal, tax and commercial) and of the state of completion of the activities.
These estimates are based on assumptions relating to the effects of future events which, given the type and complexity of the projects to be performed, might occur in forms different from those estimated, with a negative effect on the economic and financial performance of the project.
To mitigate these risks, the following should be noted:

- market diversification and monitoring of country and regulation risk;
- structured process of project review with the involvement of the senior management;
- the review and periodic updating of order estimates;
- adoption of Risk Management processes at the offer stage and during the project implementation, and adoption of Lifecycle Management processes based on the constant comparison of physical and accounting progress and phase review processes.

Budget processes and Risk Management project planning

The project team may not be able to perform the project within budget and time constraints, in particular for projects in new markets and complex projects, due to non-efficient project controlling processes; risk management might not be efficient if it is based on incomplete or incorrect information or if it is not adequately defined and monitored.
This risk might cause delays in the identification of the problems for project performance and inaccurate reporting and planning, with a negative impact on the Group's financial condition.
To mitigate this risk, processes have been defined and monitored for controlling the physical and accounting and risk management progress, the clear-cut responsibilities of the Project Manager and the Order Controller, managerial reviews of project performance, processes for the review of estimates of offers and the independent review of the Risk Management function.
Specific initiatives are being carried out in order to structure the Group controlling processes.

Third parties (sub-contractors, sub-suppliers and partners)

In both the business in which the Group operates sub-contractors are widely used to supply sub-systems or assembling and installation services and sub-suppliers of goods or services. The Group's ability to meet its obligations to the customers is then subject to the good performance of the contractual obligations on part of both sub-contractors and sub-suppliers. Their non-performance may cause Ansaldo STS non-performance, with negative impacts on reputation and, unless compensation is possibly sought through remedy actions against sub-contractors and sub-suppliers, on the Group's financial condition.

The Group also completes some orders in partnership with other operators, especially in the transportation solution business. In these forms of partnership, generally each partner is jointly liable to the customer for the construction of the entire work. In case of breach or of damage caused to the customer by one associated operator, Ansaldo STS may have to replace the breaching or damaging party and to fully repay the damage caused to the customer, without prejudice to the right of recourse against the defaulting partner. Any inefficiency or continuation of actions of recourse against the defaulting partners liable for any damages might adversely affect the Group's business and financial condition.

Moreover, as part of the Group's internationalisation strategy, the preliminary assessment and the related selection of partners, sub-contractors and sub-suppliers in new markets might be inadequate, with negative impacts on orders, reputation, financial condition and efficacy of partnership governance (such as difference of partners' opinions, misalignments of risks and costs/benefits for partners individually).
To mitigate this risk, there are processes for selecting and qualifying sub-contractors and sub-suppliers, collaboration with known partners of proven standing, the definition, execution and management of adequate contractual and grouping clauses, risk management processes and the demand, where applicable, of specific guarantees.
In selecting sub-contractors and partners in new markets, these processes are followed through specific scouting activities.
Further actions are being carried out to make more efficient the evaluation of sub-contractors and partners during the offer.

Link

"Ansaldo STS believes that managing the entire supply chain is a critical success factor: it therefore adopts qualification criteria that include respect for the environment, health and safety, and constant monitoring."
> Please see page 142 of the 2011 Sustainability Report for further information

Adequacy and efficiency in developments and technical references

Development projects may not be carried out within budget and time constraints and requirements may not be understood and identified clearly, with a negative impact on margins, delivery times and customer satisfaction. Under certain circumstances, the Group could not be able to have adequate market and operation references for some products, with the risk of losing commercial opportunities or incur in non-compliance in performing the project, with negative effects on the Group competiveness and financial position.

The planning and control of the development activities have been defined in order to ensure that priorities are evaluated properly and time and costs are controlled. The risk of not having adequate references for some new products is carefully assessed during the offer and managed with recovery plans during the construction phase.

Customer or third party liability for defects in the products sold or delays in delivery

The technological complexity and the close times for the delivery of Group products and systems might expose the Group to liability for delayed or lack of supply of products or services in the contract, for their non-compliance with customer requests (for example due to defects in the designing and construction), to defaults and/or delays in marketing, after-sale services and product maintenance and review.
Moreover, many products and systems supplied by the Group are subject to certifications or validations, also released by third parties.
These liabilities may depend on causes that are directly attributable to the Group or third parties, such as sub-suppliers or sub-contractors. In the event that these risks may occur, there could be negative effects on the business and the economic and financial condition and reputation of the Group.
These negative effects may include the incurring of costs for repairing faulty products or in extreme cases the withdrawal of the products from the market.
With regard to these effects, even in the case where specific insurance coverage is applicable, the limit of liability might be exceeded or, when claim occurs, insurance premiums might be increased, with a negative impact on the Group's financial condition.
To mitigate these risks, the Group takes out specific insurance coverage, carefully oversees the engineering, validation and monitoring of returns and, in concert with the Risk Management process, identifies mitigation actions for each project and includes appropriate contingencies in the order estimate.

Legal disputes

The complexity of the relations with third parties (customers, sub-contractors/sub-suppliers and partners), of the content of the systems and products made, and the risks inherent in the business expose the Group to a significant risk of legal disputes. The legal dispute may also concern the tender awards.
The definition of disputes might be complex and be completed in the long-term, causing delays in the implementation of projects with negative effects on the business and the economic and financial condition of the Group.

To mitigate this risk, there risk management processes during the offer and during the management phase, contractual clauses are carefully checked with the support of the legal function and a prudential approach is taken when recognising specific items as a cost of orders and a provision for risks.

Human resources management

The Group provides products and systems with high technological content.
To build them, it is necessary to use human resources with specific preparation that is hard to gather from the market.

The success of the business development plans, in particular in new markets, also depends on the ability to attract, retain and develop the expertise of human resources, especially in order to operate in an international scenario.
To mitigate this risk, human resources management policies are defined that are strictly related with the business needs, in particular at the present stage of business integrated management and expansion in new markets.
An integrated system of management and development of human resources was defined and implemented in the course of 2011. In this context, periodic controls have been made on skills and performances and steps have been taken for the development of skills and the best allocation of resources.

A few existing critical points refer to the adequacy of some organizational roles of the working groups, redefined in the scope of the recent organizational change, that may compromise the achievement of some benefits resulting from the change of corporate processes. Specific initiatives have been taken to strengthen these roles.

Link

"Ansaldo STS seeks to continually improve its training programmes as the basic means of growing its human resources and increasing their skills."
> Please see page 112 of the 2011 Sustainability Report for further information

Development, safety and environment compliance

The Group is subject to health, safety and environment regulations in the various countries in which it operates.

The non-compliance with these rules as a result of operating processes that are not adequately monitored or, in particular in new markets, of a non-adequate evaluation of these compliance requirements might expose the Group to risks with significant impacts on the business, the economic and financial condition and the reputation of the Group.

To mitigate this risk, the Group adopts health, safety and environment management systems aiming at ensuring the stringent compliance with rules in accordance with best practices and subject to internal and external monitoring. These management systems are certified - in compliance with the OHSAS 18001 standard on work safety and the ISO14001 standard on environment - in some of the main companies of the Group. A programme is being implemented to extend these certifications to the main Group companies.

The requirements of new markets are evaluated during the offer and support is guaranteed also through external consultants. Common policies and procedures have been defined in order to guarantee consistent conducts across the various companies of the group, also taking account of the specific local requirements.

Link

"Carbon Disclosure Project: with 79 points out of 100, Ansaldo STS was among the top 10 companies in Italy for its commitment to protecting the environment and reducing climate change."
> Please see page 160 of the 2011 Sustainability Report for further information

"Ansaldo STS works constantly to provide and maintain a healthy and safe workplace, and prevent accidents, illness or health problems in its staff, suppliers, clients and visitors."
> Please see page 179 of the 2011 Sustainability Report for further information

Financial risks

Ability to finance a high level of current assets and to obtain guarantee

To perform contracts the Group requires:
- the financing of an adequate level of current assets;
- the issue of bank and/or insurance guarantees in favour of the customer during the various stages of the projects (bid bond, advance payment bond, performance bond, retention money bond, warranty bond) and/or guarantees issued by the Parent Company (parent company guarantee).

Current assets are normally financed using the sums paid by the customer as advance and payment related with the state of progress of works.

The ability to obtain guarantees in cheap conditions depends on the economic and financial assessment of the Group. This is generally linked to various assessment indices including the analysis of the balance sheet, the income statement and the cash flow statement of the Group, the analysis of the risk of the order, the expertise and competitive positioning in the business. Ansaldo STS believes it can comply with the relevant assessment indices. At 31 December 2011 the Group's exposure for guarantees stood at EUR 2,857,361 thousand (EUR 2,314,756 thousand at 31 December 2010).

In the case of difficulties in negotiating adequate financial conditions, delays and/or interruptions in payments and the worsening of the terms of payment agreed, or if the ability of the company to obtain guarantees should cease to obtain or be reduced in cheap conditions, the Group's business and economic and financial condition would be adversely affected.

To mitigate these risks, there are order commercial and management policies dealing with financial aspects, treasury centralised management allowing the optimisation of the financial flows of the various companies of the Group, the economic and financial standing of the Group and the monitoring of the indices assessing the order. These policies are applied from the offer stage.

In the current economic and market phase, the working capital is increasing (though always negative) and the cash flow is decreasing. This was caused by the suspension of the job-order in Libya because of delays in the collections and a corresponding increase in overdue, determined by the delays in government grants for projects in progress both in Italy and in some foreign markets. These situations are being monitored constantly and supported by specific initiatives to mitigate the impact thereof.

Project Financing transactions and PPP (public and private partnership)

The market is increasingly outsourcing the definition and management of a financing scheme to the transport system providers, by means of Project Financing transactions, also with the involvement of private lenders.

These transactions have various risk profiles, such as the inaccurate preparation and review of the tender documentation and the inappropriate evaluation of partners, which might lead the Group to take improper risks. Non-performance during construction, in particular regarding construction times, and during the operation and maintenance stage might trigger the enforcement of escape clauses and the non-remuneration or the loss of the capital invested. Moreover, the market wants the supplier to be more involved in the management of the plant, with a consequent increase in the risk profile of the operation. These risks might adversely affect the Group's financial condition.

To mitigate this risk, there are the offering process, where all the company functions concerned are involved for an accurate evaluation of the operation, and the above said risk assessment processes upon the offer, which can be also applied to potential partners.

Disclosure risks

Management of information systems

Information systems represent an essential component of the company operating structure and are required to be managed in line with the Group's strategic objectives. IT solutions that do not meet the business needs, or upgrades of these IT solutions not in line with the users' needs, as well as a non-efficient system management might impair the efficient performance of the Group's business.

Moreover, the non-availability or interruption of IT services, the loss or damage of data, also due to external attacks, might adversely affect the Group's business.

To mitigate this risk, IT policies are defined in correlation with organizational and process change initiatives and the group has a governance system that is based on best practices and follows structured and monitored processes for the management of the infrastructure and the applications.

AnsaldoSTS
A Finmeccanica Company

CONSOLIDATED ANNUAL REPORT AT 31 DECEMBER 2010

2 Economic performance and Group financial situation

2.1 Introduction

At 31 December 2010 the Ansaldo STS Group posted net profit EUR 94,908 thousand compared with EUR 87,800 thousand for the same period last year. Revenues at 31 December 2010 were EUR 1,283,710 thousand compared with EUR 1,175,640 thousand at 31 December 2009. The Group operating revenues stood at 10.7%, as in 2009.

Orders at 31 December 2010 amounted to EUR 1,985,012 thousand from EUR 1,786,071 thousand at 31 December 2009, up EUR 198,941 thousand.
It is thus noted that:

- Acquisitions of EUR 1,142,756 thousand are recorded for the Transportation Solutions Business Unit, mainly related to the award of the tender for the construction of the new “Ring” Copenhagen Metro (EUR 344,400 thousand), the contract for operation and maintenance (EUR 232,400 thousand) and the acquisition of the contract for the operation and maintenance of the existing lines of Copenhagen (EUR 221,500 thousand).
- Acquisitions of EUR 890,205 thousand are recorded for the Signalling Business Unit, mainly related to the contract for the Libyan Sirth-Bengazi railway line (EUR 201,800 thousand), to contracts acquired in Italy for EUR 199,500 thousand and to the contracts acquired in the US, Brazil, China and Australia for the remaining amount.

The value of backlog at 31 December 2010, equal to EUR 4,551,127 thousand, reflects the performance of acquisitions and rose by 21% from that for the end of 2009, which amounted to EUR 3,759,671 thousand.

The data outlined above are evidence of a fiscal year that can be considered satisfactory overall from the standpoint of the company’s growth, profitability, and capital and financial solidity.
The actions undertaken and results achieved during the year paved the way for the continuation of a positive trend for the Group also for the near future.
More specifically, as regards the Transportation Solutions Business Unit, due to the exceptionally large orders acquired in the previous years, together with an excellent level of acquisitions for the period at issue, the backlog exceeded the already significant amount of the end of 2009 standing at EUR 2,721,540 thousand. This paves the way for significant development of this business over the next three years. As far as the Signalling Business Unit is concerned, the year 2010 was marked by a sizeable geographic expansion of the potential market, which has already yielded important results in terms of the acquisition of new orders in particularly important business segments and countries. The backlog of the Signalling Business Unit at 31 December 2010 stood at EUR 2,090,584 thousand (EUR 1,980,191 thousand at 31 December 2009).
The solid knowledge already acquired (ERTMS and ATC driverless) and the expertise being consolidated (CBTC) in the strategic technologies of the sector, the peculiar geographic distribution of the Group business at global level, and the additional efforts of commercial penetration in the new areas characterised by high growth rates (Central and Eastern Europe, and Middle and Far East) confirm the Group’s favourable competitive positioning and make it possible to look to the future with reasonable serenity, unless the political or macroeconomic scenario is upset by events that cannot be determined with certainty at the moment.

The last strategic plan prepared by the company and made known to the financial community in December 2010 is based on the assumption that orders and revenues will further develop during the next three years. This is credible, first of all because estimates for the reference market are growth estimates (made by the most credited analysts at an annual average rate of 4.5%), and secondly because the organisation has a factual possibility of increasing its market share, due to its particular business model and competitive, technological and presence advantages on the above said international markets.
With these positive prospects, some possible threats are also to be considered. First of all, competition is rising, due to market globalisation and product standardisation. To address the effects of the resulting contraction of selling prices, the company launched a programme for the reduction of both external and internal costs, in order to protect unit margins for the coming years.
Potentially more serious, because it is difficult to control, is the threat of the deterioration of the political and macroeconomic scenario, especially in the emerging markets, whose penetration has been recently the focus of the most significant efforts of the company, such as in the Middle East, in particular in Libya.
The development of destabilisation events occurring as we are preparing these financial statements and the consequences on the business prospects of Ansaldo STS are difficult to estimate, at least at present.

As regards the company structure and Group governance, the following should be noted:

- During December 2009 a new company was incorporated in Brazil under the name “Ansaldo STS Sistemas de Transporte e Sinalização Ltda.”, whose share capital was subscribed during 2010. The company was consolidated using the equity method.
- The Chinese subsidiary “Ansaldo Railway System Technical Service (Beijing) Ltd.” changed its company name into “Ansaldo System Trading (Beijing) Ltd.”.
- Starting December 2010 Kazakhstan TZ-Ansaldo STS LLP (a joint venture subject to common control, as envisaged in the shareholders’ agreement) incorporated with JSC Remlokomotiv, was consolidated using the proportionate method. The ownership percentage was 49%.
- During the year, Ansaldo STS through its subsidiary Ansaldo STS Australia acquired from Corridor Infrastructure Development Holdings (Pty) Ltd 49.3% of the shares held by the latter in Ansaldo STS-Infradev South Africa (Pty) Ltd., therefore holding 100% of the shares in the South African company. On 21 June 2010 the company changed its company name into “Ansaldo STS South Africa (Pty) Ltd”.

From the organisational point of view, the year 2010 was marked by the full implementation of the Fast Forward Driven by Business (FFDB) project, determined in 2008 and detailed throughout 2009, a project that transformed Ansaldo STS S.p.A. from the original financial and strategic holding company into an operating company, which encompasses all the business responsibilities. This process commenced in 2009 with the merger of the former Italian subsidiaries Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A., and in 2010 was extended to all the Group world transactions, previously managed by the foreign affiliates with broad levels of independence. Under the new organisation structure, Ansaldo STS S.p.A. hinges on the two divisions in charge of the Signalling and the Transportation Solutions Business Units, the Standard Platforms and Products Business Unit and all the staff functions. As a result, all the decision-making and operating processes have been concentrated in Ansaldo STS S.p.A. globally. The role of the foreign affiliates is to ensure compliance with local rules and assist in the implementation of the global strategy. The main objective is to ensure the maximum Group efficiency and efficacy in a competitive scenario marked by increasingly evident globalisation events.

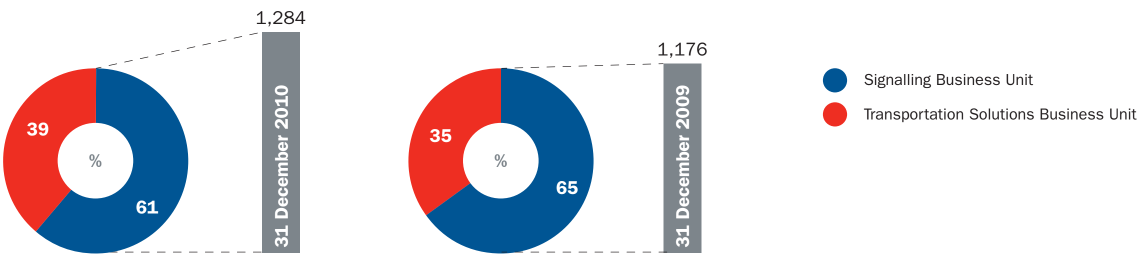
Group key figures (EUR thousand)	**31.12.2010**	31.12.2009	Change
Orders	**1,985,012**	1,786,071	198,941
Order backlog	**4,551,127**	3,759,671	791,456
Production Revenues	**1,283,710**	1,175,640	108,070
Ebit	**137,065**	125,052	12,013
Adjusted EBIT	**139,411**	126,547	12,864
Net profit	**94,908**	87,800	7,108
Net working capital	**(154,253)**	(187,118)	32,865
Net invested capital	**63,311**	22,675	40,636
Net financial position (liquidity)	**(318,150)**	(278,861)	(39,289)
Free Operating Cash Flow	**65,983**	114,428	(48,445)
R.O.S.	**10.7%**	10.6%	0.1 p.p.
R.O.E.	**27.8%**	32.5%	-4.7 p.p.
E.V.A.	**94,162**	84,553	9,609
Research and Development	**34,827**	31,178	3,649
Workforce (no.)	**4,217**	4,339	(122)

The year 2010 ended with net consolidated profit of EUR 94,908 thousand, as compared with EUR 87,800 thousand the prior year. The increase of EUR 7,108 thousand stems from the rise in EBIT of EUR 12,013 thousand, the increase in net financial charges of EUR 3,595 thousand and greater taxes of EUR 1,310 thousand.
In line with objectives, production revenues rose by 9.2% from EUR 1,175,640 thousand in 2009 to EUR 1,283,710 thousand in 2010, with an increase, in absolute value, of EUR 108,070 thousand.

For the Signalling Business Unit, production revenues rose by EUR 36,853 thousand from EUR 804,978 thousand in 2009 to EUR 841,831 thousand in 2010.

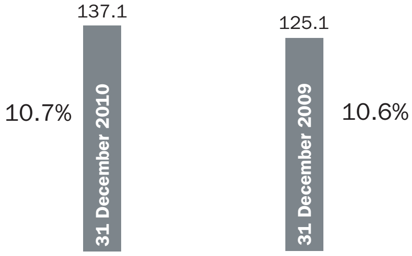
For the Transportation Solutions Business Unit, production revenues rose by EUR 87,318 thousand from EUR 417,130 thousand in 2009 to EUR 504,448 thousand in 2010.
A greater number of items than in 2009 were eliminated between the two Business Units by EUR 16,101 thousand (reference should be made to section 14 for more details).

Production Revenues by Business Unit at 31 December 2010 – 2009 (EUR thousand)



EBIT amounted to EUR 137,065 thousand from EUR 125,052 thousand from the previous year. The profit margin was 10.7% from 10.6% in 2009.
In particular:
- Signalling ended 2010 with operating profit of EUR 104,232 thousand, compared with EUR 98,992 thousand for the prior year, an increase of EUR 5,240 thousand;
- The Transportation Solutions Business Unit at 31 December 2010 posted operating profit of EUR 46,294 thousand compared with EUR 43,111 thousand of the prior year, an increase of EUR 3,183 thousand.

EBIT and ROS at 31 December 2010 – 2009 (EUR thousand)



In order to provide additional information on the Group's operating results, financial condition and cash flow, the restated income statement, balance sheet, net financial debt, and statement of cash flows are provided below.

Income Statement (EUR thousand)	**31.12.2010**	31.12.2009
Revenue (*)	1,283,710	1,175,640
Production Revenues	**1,283,710**	**1,175,640**
Raw materials and consumables used and personnel costs (**)	(1,136,762)	(1,041,400)
Amortisation and depreciation	(13,215)	(11,825)
Impairment	(6,430)	(1,819)
Other net operating income (expenses) (***)	9,770	5,701
Change in inventories of work in progress, semi-finished and finished goods	2,338	250
Adjusted EBIT	139,411	126,547
Restructuring costs	(2,346)	(1,495)
EBIT	**137,065**	**125,052**
Net finance income (costs)	(3,854)	(259)
Income taxes	(38,303)	(36,993)
Net Profit (Loss)	**94,908**	**87,800**
Equity holders of the Company	*94,592*	*87,756*
Minority interests	*316*	*44*
Earnings per share		
Basic and Diluted	*0.79*	*0.73*[1]

1. Redetermined following the free share capital increase of 5 July 2010.

Notes for reconciling the reclassified Income Statement and the Income Statement:
(*) Includes "Revenue" and "Revenue from related parties".
(**) Includes "Costs from related parties", "Raw materials and consumables used", "Purchase of services" and "Personnel costs", less "Work performed by the Group and capitalised".
(***) Includes the net amount of "Other operating income", "Other operating income from related parties", "Other operating expenses" and "Other operating expenses from related parties".

Balance Sheet (EUR thousand)	31.12.2010	31.12.2009
Non-current assets	263,747	252,010
Non-current liabilities	(46,183)	(42,217)
	217,564	**209,793**
Inventories	127,632	99,178
Contract work in progress	216,928	151,146
Trade receivables	624,808	526,500
Trade payables	(403,133)	(248,168)
Advances from customers	(657,150)	(651,950)
Working capital	**(90,915)**	**(123,294)**
Provisions for short-term risks and charges	(22,417)	(27,726)
Other net assets (liabilities) (*)	(40,921)	(36,098)
Net working capital	**(154,253)**	**(187,118)**
Net invested capital	**63,311**	**22,675**
Capital and reserves attributable to equity holders of the Company	380,411	300,897
Minority interests in equity	1,050	639
Shareholders' equity	**381,461**	**301,536**
Net financial debt (liquidity)	**(318,150)**	**(278,861)**

Notes for reconciling the reclassified Balance Sheet and the Balance Sheet:
(*) Includes "Income tax receivables", other current receivables from related parties (carried under "Current receivables from related parties") and "Other current assets", less "Income tax payables", other current payables from related parties (carried under "Current payables to related parties"), "Other current liabilities", except for financial receivables from related parties (carried under "Current receivables from related parties").

Net invested capital amounted to EUR 63,311 thousand compared with EUR 22,675 thousand in the previous year. The change of EUR 40,636 thousand is due to the increase in non-current items of EUR 7,771 thousand and in net working capital of EUR 32,865 thousand. The change in net working capital is due to the increase in inventories of work in progress and trade receivables and the rise in trade payables.
The net financial position (mainly financial receivables and cash and cash equivalents on borrowings) was EUR 318,150 thousand as compared with EUR 278,861 thousand in 2009, an increase of EUR 39,289 thousand after the payment of dividends of EUR 30,982 thousand (EUR 26,971 thousand in 2009). The financial position at 31 December 2010 (EUR 318,510 thousand) includes EUR 70,643 thousand for the advance payment collected by the Russian customer Zarubezhstroytechnology for the project, recently signed, for the construction of signalling, automation, telecommunications, power supply, security and ticketing systems on the line linking Sirth to Benghazi in Libya.

2.2 Financial Situation

(EUR thousand)	31.12.2010	31.12.2009
Short-term borrowings	3,089	12,187
Medium and long-term borrowings	1,115	2,881
Cash and cash equivalents	(153,320)	(128,541)
BANK DEBT (LIQUIDITY)	**(149,116)**	**(113,473)**
Financial receivables from related parties	(149,150)	(152,792)
Other financial receivables	(21,212)	(14,100)
FINANCIAL RECEIVABLES	**(170,362)**	**(166,892)**
Borrowings from related parties	-	-
Other short-term borrowings	822	353
Other medium- and long-term borrowings	506	1,151
OTHER BORROWINGS	**1,328**	**1,504**
NET FINANCIAL DEBT (LIQUIDITY)	**(318,150)**	**(278,861)**

Cash and cash equivalents at 31 December 2010 came to EUR 153,320 thousand.

Cash Flow Statement at 31 December 2010 was broken down as follows:

Statement of Cash Flows (EUR thousand)	31.12.2010	31.12.2009
Cash and cash equivalents - opening balance	**128,541**	**71,536**
Gross cash flow from operating activities	164,994	145,798
Changes in other operating assets and liabilities	(50,311)	(35,044)
Funds From Operations	**114,683**	**110,754**
Change in working capital	(41,717)	12,203
Cash flow from (used in) operating activities	**72,966**	**122,957**
Cash flow from ordinary investing activities	(6,983)	(8,529)
Free Operating Cash Flow	**65,983**	**114,428**
Strategic investments	-	(3,210)
Other changes in investing activities	-	-
Cash flow from (used in) investing activities	**(6,983)**	**(11,739)**
Dividends paid	(30,982)	(26,971)
Cash flow from financing activities	(12,795)	(26,894)
Cash flow from (used in) financing activities	**(43,777)**	**(53,865)**
Translation differences	**2,573**	**(348)**
Cash and cash equivalents - closing balance	**153,320**	**128,541**

The year 2010 ended with net increase of EUR 24,779 thousand in cash and cash equivalents over the same period of the prior year.

The following are the main changes in the Statement of Cash Flows:
- cash flow from operations of EUR 72,966 thousand, a decrease on the same period the preceding year by EUR 49,991 thousand, mainly due to the change in working capital, which is affected by the rise in trade receivables (EUR 98,308 thousand), work in progress (EUR 65,782 thousand) and inventories (EUR 28,454 thousand) partly offset nu the increase in trade payables (EUR 154,965 thousand);
- cash flow used in investing activities was EUR 6,983 thousand, down EUR 4,756 thousand from the same period of the prior year (EUR 11,739 thousand at 31 December 2009);
- cash flow used in financing activities was EUR 43,777 thousand as compared with EUR 53,865 thousand generated at 31 December 2009; the change is mainly due to the decrease in Group receivables in the December 2010 - December 2009 period as compared with the decrease in the December 2009 – December 2008 period. The decrease was also due to greater dividends paid: EUR 30,982 thousand in 2010, EUR 26,971 thousand in 2009.

The Free Operating Cash Flow (FOCF) before strategic investments for the period at issue amounted to EUR 65,983 thousand from EUR 114,428 thousand at 31 December 2009; the change amounted to EUR 48,445 thousand, as analysed above.

2.3 Alternative non-GAAP performance indicators

The management of Ansaldo STS (hereinafter also ASTS) assesses the Group's earnings and financial performance and that of its business segments based on a number of indicators that are not envisaged by the IFRSs.
As required by Communication CESR/05-178 b, below is a description of the components of each of these indicators:
- ***EBIT:*** the aggregate signifies earnings before taxes and finance income and costs, with no adjustments. Ebit also does not include costs and income resulting from the management of unconsolidated equity investments and other securities, nor the results of any sales of consolidated shareholdings, which are classified on the financial statements either as "finance income (costs)" or, for the results of equity investments accounted for with the equity method, under "share of profit (loss) of equity accounted investments".
- ***Adjusted (Adj) EBIT:*** It is arrived at by eliminating from EBIT (as defined above) the following items:
  - any impairment in goodwill;
  - amortisation of the portion of the purchase price allocated to intangible assets in relation to business combinations, as required by IFRS 3;
  - restructuring costs that are a part of significant, defined plans;
  - other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.

The reconciliation between EBIT and Adjusted EBITA for the periods compared is presented hereunder:

(EUR thousand)	**2010**	2009
Earnings before income taxes, net finance income and costs and share of results of equity accounted investments (EBIT)	137,065	125,052
Impairment of goodwill	-	-
Amortisation of intangible assets acquired through a business combination	-	-
Restructuring costs	2,346	1,495
Total exceptional costs (income)	-	-
Adjusted EBIT	**139,411**	**126,547**

- ***Free Operating Cash-Flow (FOCF):*** This is the sum of the cash flow generated by (used in) operating activities and the cash flow generated by (used in) investment and divestment of intangible assets, tangible assets, and equity investments, net of cash flows from the purchase or sale of equity investments that, due to their nature or significance, are considered “strategic investments”. The calculation of FOCF for the periods concerned is presented in the reclassified statement of cash flows shown in section 2.2.
- ***Funds From Operations (FFO):*** This is cash flow generated by (used in) operating activities, net of changes in working capital. The calculation of FFO for the periods concerned is presented in the reclassified statement of cash flows shown in section 2.2.
- ***Economic Value Added (EVA):*** This is calculated as EBIT net of taxes and the cost of the average value of invested capital for the two periods concerned and measured on a weighted-average cost of capital (WACC) basis.
- ***Operating Working Capital:*** includes trade receivables and payables, work in progress, advances from customers and provisions for risks and charges.
- ***Net Working Capital:*** this is represented by operating working capital less other current assets and liabilities.
- ***Net Invested Capital:*** this is the algebraic sum of non-current assets, non-current liabilities and Net Working Capital.
- ***Net financial debt (liquidity) or Net financial position:*** the template for calculation is consistent with the one in section 127 of the CESR/05-054b recommendations implementing EC Regulation 809/2004.
- ***Orders:*** This is the sum of the contracts executed with contractors during the year which have the contractual characteristics for being booked to the order book.
- ***Order backlog:*** This is the difference between the orders acquired and production revenues for the period of reference, net of the change in contract work in progress. This difference is added to the portfolio of the prior period.
- ***Workforce:*** This is the number of employees reported on the last day of the period concerned.
- ***Return on Sales (ROS):*** This is the ratio between EBIT and revenues.
- ***Return on Equity (ROE):*** this is calculated as the ratio between the net profit and the average value of shareholders’ equity for the two periods concerned.
- ***Research and Development costs:*** this is the sum of costs sustained for R&D expensed and sold. The costs for research expenses are normally referable to the so-called “basic technology”, i.e. rights to the attainment of new scientific knowledge and/or techniques applicable to different new products and/or services. The costs of research sold are those commissioned by the customer against which a specific sale order exists and which have accounting and operational treatment identical to ordinary supply (sale contract, profitability, invoicing, advances, etc.).

2.4 Transactions with related parties

Transactions with related parties concern activities in the ordinary course of business and are carried out at arm’s length (where they are not governed by specific contractual conditions), as is the settlement of interest-bearing payables and receivables.
These transactions mainly relate to the exchange of goods, the performance of services and the generation and use of net cash from and to associated companies, held under common control (joint ventures), consortia, and unconsolidated subsidiaries.
There are no transactions qualifying as atypical and/or unusual[1].

1. as defined in CONSOB communication no. DEM/6064293 of 28 July 2006.

Below are the amounts of transactions with related parties (a breakdown is shown in Notes 15 and 16) at 31 December 2010 and 2009.

31.12.2010 (EUR thousand)	**Parent company**	**Unconsolidated subsidiaries**	**Associates**	**Joint Ventures (*)**	**Consortiums (**)**	**Other Group**	**Total**
Non-current receivables							
- financial	-	-	-	-	-	-	**-**
- other	-	-	1,006	-	-	-	**1,006**
Current receivables							
- financial	635	-	-	-	-	148,515	**149,150**
- trade	27	5,700	29,129	-	39,964	10,187	**85,007**
- other	145	-	-	-	1,365	54	**1,564**
Non-current payables							
- financial	-	-	-	-	-	-	**-**
- other	-	-	-	-	-	-	**-**
Current payables							
- financial	-	-	-	-	-	-	**-**
- trade	468	6,003	2,822	5,454	1,092	38,280	**54,119**
- other	-	3	-	-	24	-	**27**
Guarantees	**-**	**-**	**-**	**-**	**-**	**-**	**-**

31.12.2010 (EUR thousand)	**Parent company**	**Unconsolidated subsidiaries**	**Associates**	**Joint Ventures (*)**	**Consortiums (**)**	**Other Group**	**Total**
Revenues	-	5,599	30,139	2,854	36,139	14,481	**89,212**
Other operating revenues	-	3	7	-	-	41	**51**
Costs	2,565	9,904	48,575	10	2,840	54,182	**118,076**
Finance income	1	-	-	-	-	718	**719**
Finance costs	124	-	-	727	-	-	**851**
Other operating costs	-	-	-	-	-	59	**59**

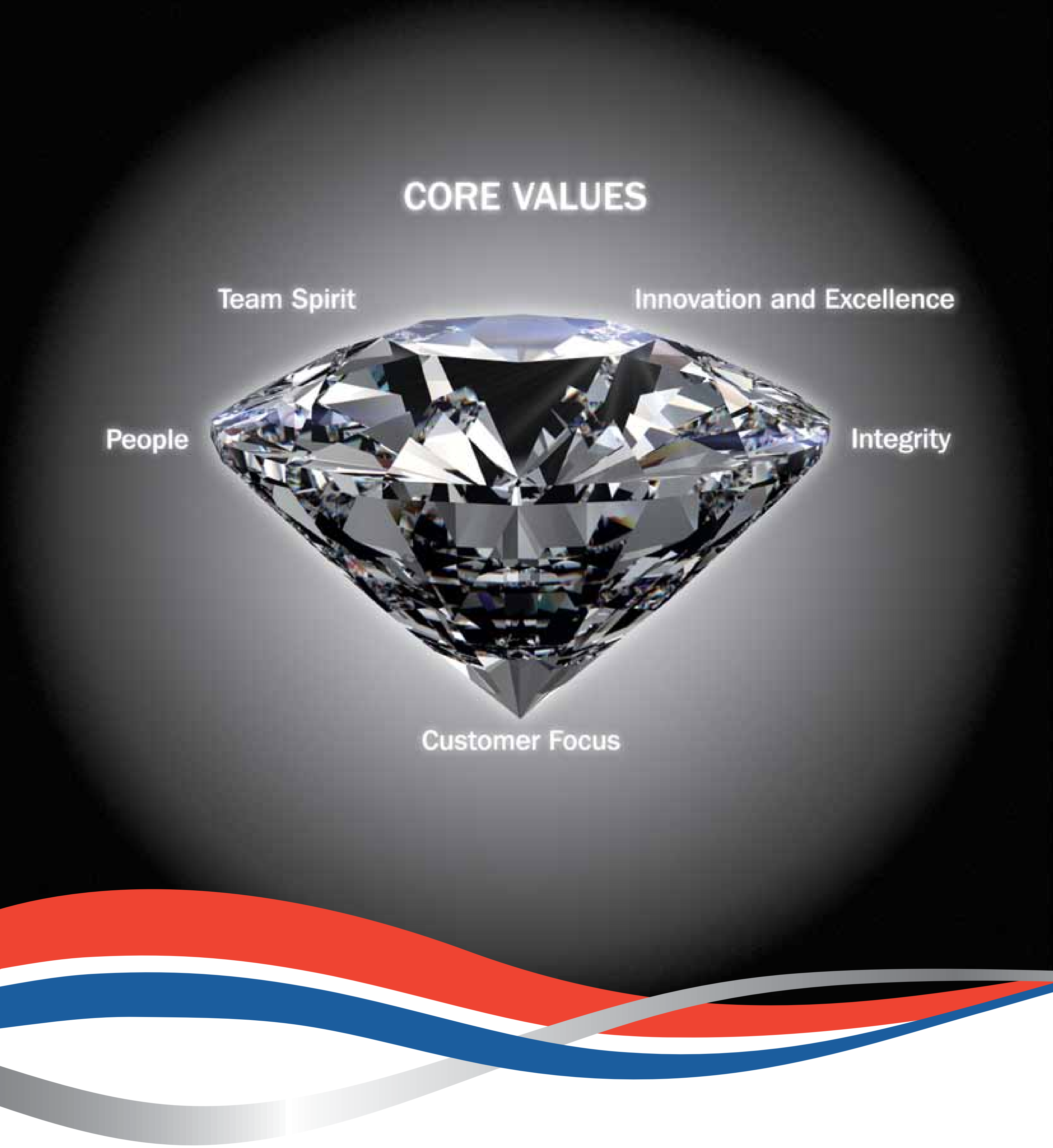
(*): amounts refer to the portion not eliminated for proportionate consolidation
(**): consortiums over which the Group exercises considerable influence or which are subject to joint control.

31.12.2009 (EUR thousand)	Parent company	Unconsolidated subsidiaries	Associates	Joint Ventures (*)	Consortiums (**)	Other Group	Total
Non-current receivables							
- financial	-	-	-	-	-	-	**-**
- other	-	-	-	-	-	-	**-**
Current receivables							
- financial	1,282	-	-	-	-	151,510	**152,792**
- trade	-	3,892	34,188	783	84,634	7,157	**130,654**
- other	336	-	-	-	1,364	54	**1,754**
Non-current payables							
- financial	-	-	-	-	-	-	**-**
- other	-	-	-	-	-	-	**-**
Current payables							
- financial	-	-	-	-	-	-	**-**
- trade	324	2,651	1,983	1,687	1,537	12,342	**20,524**
- other	-	3	-	-	24	414	**441**
Guarantees	**216,284**	**-**	**-**	**-**	**-**	**-**	**216,284**

31.12.2009 (EUR thousand)	Parent company	Subsidiaries	Associates	Joint Ventures (*)	Consortiums (**)	Other Group	Total
Revenues	-	10,140	26,734	2,668	85,376	12,028	**136,946**
Other operating revenues	-	-	24	-	-	69	**93**
Costs	2,342	10,756	49,035	(368)	4,441	21,916	**88,122**
Finance income	1	-	-	-	-	1,937	**1,938**
Finance costs	178	-	-	(237)	-	-	**(59)**
Other operating costs	-	-	-	-	-	17	**17**

(*): amounts refer to the portion not eliminated for proportionate consolidation
(**): consortiums over which the Group exercises considerable influence or which are subject to joint control

Within the Group rules of corporate governance, specific conduct guidelines were identified to ensure that transactions with related parties are carried out in compliance with methods of procedural and substantial fairness.
All the transactions made with the Parent Company and the related parties were at arm's length.



CODE OF ETHICS

AnsaldoSTS
A Finmeccanica Company

Introduction

The Ansaldo STS Group requires the members of its governance and control bodies, its executives, employees, including those of directly or indirectly owned group companies, and all those who entertain contractual relationships that permit Ansaldo STS to require compliance (the "Recipients") to act with integrity and with respect for the laws and regulations in their respective jurisdictions.

Ansaldo STS adopts and disseminates this Code of Ethics, requiring all Recipients to comply.

The Code of Ethics is a fundamental component of the internal control system, the compliance of which allows Ansaldo STS and companies of the Group to prevent the commission of certain acts or offences proscribed by the laws and regulations of the various jurisdictions in which the Ansaldo STS Group operates.

Ansaldo STS is a multinational industrial group, is listed on the Italian stock exchange, and operating world-wide in a leadership position in the railway and underground transportation sector, to provide innovative solutions whichoffer the best possible combination of safety, efficiency and return on investments.

The Ansaldo STS Group bases its activity on ethical values, compliance with which is critical to the achievement of corporate goals and success in the market and influences the relationships with any parties with an interest in Ansaldo STS (the so called "stakeholders").

This Code of Ethics, therefore, shall be observed by the members of the governance and control bodies, executives, employees, the corporate representatives of directly or indirectly controlled companies, as well as by workers with which Ansaldo STS maintains contractual relationships of any kind, including occasional and/or temporary ones, and by those with whom the Ansaldo STS Group entertains contractual relationships that permit Ansaldo STS to require compliance.

These "Recipients" of the Code of Ethics, in pursuit of their objectives, are expected to act with integrity and with respect for applicable laws and regulations. They take responsibility for any violation of the Code of Ethics, both towards Ansaldo STS and outside, even if such violation does not result in any third party liability for Ansaldo STS.

The Recipients are required to know and are expected to observe the Code of Ethics in the interest of transparency and reputation of the Group. Recipients are also required to enforce these ethical principles within the scope of their responsibilities and functions. Ansaldo STS, through its directors, executives and employees, undertakes to adopt and update the Code of Ethics and to make it known to all those with whom it has business relationships.

The Code of Ethics is a fundamental component of the internal control system. It therefore affirms the principles and rules of conduct, respect for which allows Ansaldo STS and companies of the Group to prevent the commission of certain acts or offences by corporate representatives proscribed by the laws and regulations of the various jurisdictions in which the Ansaldo STS Group operates. As an example, in Italy reference is made to the set of rules of Legislative Decree 231/2001 and to the Organizational, Management and Control Model adopted by the holding company Ansaldo STS S.p.A.

Ansaldo STS promotes the dissemination of the Code of Ethics among the Group's companies. All Ansaldo STS Group companies shall adopt the Code of Ethics after adaptation in accordance with prevailing laws and regulations.

The "CORE VALUES" of Ansaldo STS

Ansaldo STS bases its activity on the following values shared by all those who work within the global organization:

- Customer focus
- Innovation and excellence
- People
- Team spirit
- Integrity

Ansaldo STS bases its corporate operation on a solid ethical foundation consisting of fundamental values and principles.

All persons within the company organization are expected to share such culture and the same moral commitment in pursuing it, embracing entirely the principles expressed herein.

The values in which Ansaldo STS believes and which inspire its business are the following:

Customer Focus:
Ansaldo STS exists thanks to its customers and the extent to which the Company is able to understand and satisfy their needs and expectations and help them solve related problems.

Innovation and Excellence:
Ansaldo STS is a group which is oriented to the continuous technological progress and to the creation and implementation of cutting edge solutions. This is the essential basis of Ansaldo STS's competitiveness in an international market open to global competition.

People:
Customer satisfaction and new product development come from the ability of dedicated professionals. For this reason, Ansaldo STS is a company founded on people, supporting their professional growth and rewarding those who seek and foster the success of the Company. Ansaldo STS operates worldwide and respects the culture of every country. All people within the Company's organization shall endeavour to make Ansaldo STS a place where one is proud to work, where one can learn, and where one can achieve and celebrate success.

Team Spirit:
The Company's operational objectives cannot be achieved by individuals acting alone; thus the Company's employees are able and willing to work together with colleagues within an integrated global organization.

Integrity:
To work together effectively, people must foster mutual trust, which is possible only if all work and behave in a honest, loyal and reliable manner, in complete abidance with the rules. Likewise, customers must be absolutely certain that integrity is a fundamental value for Ansaldo STS, which is reflected in product offerings characterized by the utmost care and attention to safety issues.

General Principles

Integrity and respect for law are fundamental ethical principles with which the Recipients must comply in the performance of their activities and their behaviour.

The Group's directors and executives with their behaviour shall be an example for all employees and co-workers of Ansaldo STS.

Ansaldo STS operates in accordance with applicable regulations, implementing procedures to counteract all forms of illegal activity and demanding complete abidance with the rules of conduct by the Recipients as a requirement for their work.

Ansaldo STS promotes the continuous innovation and excellence, investing in research and development and supporting a corporate culture aimed towards constant innovation.

Ansaldo STS regards the environment as a primary asset to be protected and conducts its activities to this end. The Recipients are bound within the scope of their respective competencies to comply with the relevant laws and regulations and the company procedures in relation to the environment.

Ansaldo STS adopts a system of Corporate Governance inspired by the highest standards of transparency and propriety in business management, in accordance with the laws of the Italian financial markets supervisory authority - Consob – and the Italian Stock Exchange and the laws and regulations of the jurisdictions in which the Company operates.

Ansaldo STS actions and communication are inspired by the principle of transparency, being accountable for its choices and guaranteeing the truthfulness, accuracy and completeness of business information both within and outside the company, in abidance with adequate levels of protection of confidential or inside information.

Ansaldo STS ensures the efficient management of company risks.

The Recipients of the Code of Ethics are required to act with integrity and in compliance with applicable laws and regulations.

Ansaldo STS promotes and implements a corporate culture inspired by responsibility, fairness and ethics in carrying out daily activities and the utmost attention is paid to the Recipients' conduct. Ansaldo STS's directors and executives with their behaviour shall be an example for all employees and co-workers of Ansaldo STS, respecting the Code of Ethics, corporate procedures and rules, promoting the dissemination thereof among the employees and urging them to submit requests for clarification or proposals for updating them where necessary. The directors shall actively propose and implement projects, investments and industrial and managerial actions useful for maintaining and increasing the economic, technological and professional assets of the Company.

Ansaldo STS operates in accordance with local, national and international regulations, implementing procedures to prevent all forms of illegal activity and demanding complete abidance with the rules of conduct, as also provided by the company procedure, by the Recipients as a requirement for their work. The Recipients are therefore required to be familiar with and observe the laws and regulations in force in every country in which Ansaldo STS operates. This obligation also includes attention towards and observance of the regulations on competition, both in the national and international market. All Recipients' transactions with Public Institutions and Authorities must be marked by the highest degree of fairness, transparency and cooperation, in full observance of applicable laws and regulations and of their institutional roles.

The Recipients, within the scope of their respective competencies and functions, are bound to strict compliance with corporate procedures. These regulate the conduct of operations and corporate transactions in such a way so as to make it possible to identify the persons responsible for corporate decision-making, authorization and conduct of operations. Through compliance with corporate procedures, the traceability of each process related to corporate activity must be ensured, so that it is possible to reconstruct the motives behind the decisions made, the persons responsible and any relevant factors for the purpose of assessing the propriety of the choices made.

AnsaldoSTS promotes continuous innovation and excellence, investing in research and development and supporting a corporate culture aimed towards constant innovation, both through the enhancement of our technological assets and the participation of our people in the creation of new ideas and the testing of new applications.

Ansaldo STS regards the environment as a primary asset to be protected for the benefit of future generations and manages its activities to this end, seeking a balance between economic initiatives and environmental protection requirements as well as compliance with relevant laws and regulations. Ansaldo STS operates in full compliance with environmental laws and regulations and requires the same compliance to the Recipients. Therefore they are bound within the scope of their respective competencies to comply with the relevant laws and regulations and the company procedures in relation to the environment.

Ansaldo STS adopts a Corporate Governance system inspired by the highest standards of transparency and fairness in business management. This corporate governance system complies with the provisions of the law and with the regulations of the Italian financial markets supervisory authority - Consob – and the Italian Stock Exchange, and is also in line with the content of the Italian Stock Exchange's Self-regulatory Code for listed companies - voluntarily adopted by Ansaldo STS - and with international best practice. Such a corporate governance system aims at maximising value to the benefit of shareholders, controlling enterprise risks, maintaining transparency towards the market and balancing the interests of all shareholders, particularly the small ones.

Ansaldo STS actions and communication are inspired by the principle of transparency, being accountable for its choices and guaranteeing the truthfulness, accuracy and completeness of business information both within and outside the company, in abidance with adequate levels of protection of confidentiality or inside information.

Ansaldo STS provides, within the limits established by applicable laws and in a timely, complete and accurate manner, the information requested by shareholders, customers, suppliers, authorities, institutions, and entities and other stakeholders in the performance of their functions.

The information distributed on the occasion of extraordinary transactions undertaken by the Company is prepared following procedures that ensure adequate controls for the protection of reliability of communications to the market.

Ansaldo STS ensures the efficient management of company risks by implementing the highest standards established for companies operating in regulated markets and in strategic sectors, by means of organizational structures and operating procedures which are constantly and continuously monitored and improved.

Rules of conduct

Human resources

Professionalism, responsibility, honesty, loyalty, and the commitment of human resources are the determining factors for the Company's success.

The Company is committed to protecting the moral integrity of all employees and co-workers in the workplace and promoting a multicultural working environment that respects and enhances the characteristics and unique nature of every individual. The selection of each employee and co-worker in any capacity whatsoever is conducted solely on the grounds of professional expertise and competence. Ansaldo STS supports its employees by means of a training and career development system aimed at focusing on key skills and facilitating the sharing of knowledge and best practices.

Ansaldo STS is also committed to ensuring the health of workers, in compliance with applicable laws, by taking all necessary and appropriate protective measures on the basis of the best scientific and technical know-how and by promoting a culture focused on safety. Respect for workers' dignity is ensured also through respect for privacy in correspondence and professional relationships.

Directors, employees and co-workers in various capacities are required to act in the interest of Ansaldo STS, avoiding any situation that might cause a personal interest to interfere with the Company's interest. Any conflicts of interest must be promptly reported in the manner prescribed in the Code of Ethics. Also consultants and business partners must make specific commitments to avoid conflicts of interest.

Ansaldo STS encourages people to do their best, rewarding professionalism and responsibility and promoting cooperation and team spirit at all organizational levels. Professionalism and responsibility together with honesty, loyalty, and the commitment of human resources are the determining factors for the Company's success in achieving its objectives in global competition.

Ansaldo STS works to overcome any kind of discrimination, corruption, exploitation of child or forced labour and, more generally, to promote the dignity, health, freedom and equality of workers, in line with the United Nation's Universal Declaration of Human Rights, the fundamental Conventions of the International Labour Organization (ILO) and the OECD's Guidelines.

Ansaldo STS is committed to comply with laws and regulations of the jurisdictions in which the Group operates in regard to all human resources.

The Company makes the following commitments with respect to its human resources, in the areas described below.

Work environment

Ansaldo STS is committed to ensuring the moral integrity of all its employees and co-workers and to providing dignified working conditions. Harassment of any kind in any work relationship is absolutely forbidden and, in general, to behave in any way that might compromise the peaceful performance of the functions assigned and otherwise cause prejudice to the dignity of all workers.

Ansaldo STS promotes a multicultural working environment that respects and enhances the characteristics and unique nature of every individual, providing its employees in various countries in which the company operate with the ability to use their talents effectively also helping to achieve Ansaldo STS's objectives.

Selection

The selection of each employee and co-worker in any capacity is conducted solely on the grounds of professional expertise and competence according to the Company's needs, avoiding favouritism and partiality of any kind. Ansaldo STS's selection policy offers equal work opportunities, promoting fair treatment on the basis of individual expertise and skill.

The staff of Ansaldo STS is employed in accordance with the laws and regulations applicable in the various countries in which it operates. In particular, Ansaldo STS shall not allow or tolerate any employment relationships involving a violation of applicable labour regulations concerning child, women and immigrant labour.

Employee Development

Ansaldo STS supports its employees by means of a training and career development system aimed at focusing on key skills and facilitating the sharing of knowledge and best practices, using communication as a tool to support constant improvement.

Ansaldo STS follows a policy based on recognition of merit and equal opportunity and provides specific programs for professional training and acquisition of improved skills.

Employees are required to cultivate and encourage the acquisition of new competencies, abilities and knowledge, while executives and heads of functions shall take greatest care to enhance and improve the professional expertise of their co-workers by creating the conditions for developing their skills and realising their potential.

Safety and health of workers

Ansaldo STS, complying with applicable legislation in individual countries, is committed to safeguarding workers' health, adopting all necessary and appropriate measures, based on the best technical and scientific know-how, to create a work place that meets the highest standards in matters of health and safety.

Ansaldo STS also fosters a culture focused on safety, for the protection of workers' health in the workplace, developing risk awareness and promoting responsible behaviour by all its employees and co-workers.

Protection of privacy

Ansaldo STS is committed to the protection of privacy of all the Recipients and, in general, of anyone having contacts with the Company for any reason in compliance with applicable laws in individual countries for the protection of the privacy.

The dignity of each worker shall be fostered through the respect of privacy in correspondence and professional relationships between employees where there is an expectation of privacy and by prohibiting interferences in meetings or dialogues and any intrusion or forms of control that could be personally or professionally damaging.

Conflict of interest

Between the directors, employees and co-workers of Ansaldo STS, at any level, there is a relationship of trust which is based on the assumption that all will act in the interest of Ansaldo STS in compliance with the principles set forth in the Code of Ethics. Therefore, each of these persons must avoid any situation and abstain from any action that could cause a personal or family related interest, either direct or indirect, to interfere with and hamper his/her capacity to take impartial and objective decisions in the interest of the Company.
Any situation of conflict or potential conflict, must be promptly communicated in detail to one's supervisor and, if appropriate, to the Supervisory Body of the Code of Ethics. The individual in potential conflict shall refrain from being involved or participating in any act that might prejudice the

Company or any third parties, or damage their image. Similarly, consultants and business partners must also undertake specific commitments intended to avoid any situation of conflict of interests, refraining from using, in any way and for any reason whatsoever, the activity carried out on behalf of the Company with a view to achieving illicit advantages for themselves or for others.

Ansaldo STS also requires that anyone who becomes aware of a situation of conflict of interest must promptly report it to the Supervisory Body of the Code of Ethics in the manner established by the Code of Ethics.

External Relations

Relations with authorities and public administrations shall be conducted and managed fairly, transparently and in compliance with the laws and with the principles set forth in the Code of Ethics and the internal policies and procedures.

In business relationships with clients, consultants, suppliers, partners and any other commercial counterpart, Ansaldo STS is guided by principles of integrity and respect for law and the values expressed in the Code of Ethics. The selection of the commercial counterparts shall be made based on objective, transparent and documented evaluation criteria. Ansaldo STS refrains from any relationship with persons connected to criminal or terrorist organizations or organizations which operate in violation of applicable laws and regulations. In order to prevent the risk of undertaking operations of any nature involving proceeds from committed crimes, Ansaldo STS shall abstain from accepting for whatever reason any payments in currency or equivalent.

Ansaldo STS prohibits all Recipients from accepting or offering money, gifts or undue favours. Recipients who receive money, gifts or undue favours that conflict with Ansaldo STS's policy shall immediately notify his/her supervisor for proper handing. Any irregularities in the presence of requests for or offers of money, gifts or favours shall also be reported to the Supervisory Body of the Code of Ethics.

Ansaldo STS does not encourage or discriminate against, directly or indirectly, any political organisation. The Company does not make contributions to political parties, movements, committees or organisations.

Authorities and public administrations

Relations with authorities and public administrations shall be conducted and managed in compliance with law and with the principles set forth in the Code of Ethics and AnsaldoSTS's specific policies and procedures.

Such relations, as with the management of financial resources, shall be executed by authorised corporate functions. In particular, relations with persons, authorities and international public administrations are entertained at appropriate levels, by authorized and properly identified persons.

Authorities and public administrations may include customers, public officials or persons in charge of a public service, international institutions, the judiciary, public authorities as well as private partners who are public service licensees. The operations performed with such persons may include tenders, management of contracts, authorizations, licenses, concessions, requests for and/or management of public financing, checks or communications with public authorities.

With respect to requests of any kind from a Judicial Authority and in connection with any contact with the same, Ansaldo STS is committed to providing the utmost cooperation and will refrain from behaviour that may cause obstruction. Ansaldo STS and its employees will act in full compliance with the laws and in conformity with the principles of loyalty, fairness and transparency.

In relationships with authorities and public administrations, Ansaldo STS undertakes to represent its interests and needs according to fairness and transparency, respecting the independence and impartiality of the public administration's choices.

Customers, consultants, suppliers, partners and any other commercial counterparty

In conducting its business, Ansaldo STS is guided by the principles of integrity and respect for law and the values expressed in the Code of Ethics as well as by openness to the market. Ansaldo STS requires similar behaviour from all those with whom it entertains commercial and/or financial relationships that permits Ansaldo STS to require compliance. Ansaldo STS is committed to act ethically with respect to all its customers.

Ansaldo STS refrains from any relationship whatsoever with:

- persons that are known to be, or are reasonably suspected of being part of or performing activities either in Italy or abroad in support of any criminal organization of any nature whatsoever, including mafia-like organizations, those involved in the trafficking of human beings or in the exploitation of child labour;
- persons or groups acting for the purposes of terrorism; regarding as such any conduct that may cause serious damage to a Country or an international organization, carried out in order to cause a person to perform or abstain from performing any act or to destabilize or destroy basic political, constitutional, economic and social structures of a Country or an international organization;
- persons that are known to use or are reasonably suspected of using child labour or staff hired in an irregular manner or who otherwise operate in violation of the laws and regulations regarding the protection of workers' rights.

In order to prevent the risk of undertaking, even unknowingly, operations of any nature involving money, assets or other utilities that are the proceeds of crime, Ansaldo STS shall abstain from accepting for any reason any payments in currency, bearer securities or payments through unauthorised intermediaries or through any third parties in such a manner as to make it impossible to identify the payer, or from any relations with persons having their headquarters or operating in countries where the transparency of corporate business is not guaranteed and, in general, from performing operations that might obscure the transparency of cash flows.

The selection of other parties in transactions, business partners, consultants, suppliers shall be made based on objective, transparent and documented evaluation criteria, such as quality, convenience, price and competence in accordance with the principles of this Code of Ethics and corporate procedures, as required by the specific internal policies and procedures, in writing and in observance of the hierarchical structures.

Any commercial relationships that exist between the companies of the Group must be duly formalized and conducted in accordance with the principles of fairness, effectiveness and protection of the respective interests, paying particular attention to aspects relating to the circulation of economic resources.

Ansaldo STS entertains relationships with third parties, including agents, consultants and partners for the development of commercial initiatives (such as consortia and the like), who base their conduct on ethical principles and professionalism. Specific contractual clauses are established with agents, consultants, partners and/or intermediaries in order to ensure the traceability of activities performed by them through periodic reports in relation to their abidance to assigned tasks and responsibility.

Gifts, benefits and promises of favours

In conducting business dealings with consultants, clients, suppliers, other parties in transactions, business and/or financial partners, no acts of giving or benefits (both direct and indirect), gifts, acts of courtesy or hospitality of any kind shall be made, unless they are of such a kind and value that do not compromise the image of the Company, and that may not be interpreted as aiming at obtaining preferential treatment. In all cases, any gifts, acts of courtesy or form of hospitality shall be reported to and submitted to the approval by the persons charged to such effect.

Recipients who receive, gifts or benefits that are in conflict with Company policy shall immediately notify his/her supervisor for proper handling. The person who offered the gift or giveaways shall be informed of the Company policy on this issue.

Any irregularities in the presence of requests for or offers of money, gifts or favours shall also be reported to the Supervisory Body of the Code of Ethics.

Political organizations

Ansaldo STS does not encourage or discriminate against, directly or indirectly, any political organisation.

The Company does not make contributions of any kind or in any form, whether direct or indirect, to political parties, movements, committees and political organisations, to their representatives and candidates, except as required by specific laws.

The above does not apply, however, to charitable initiatives that Ansaldo STS regards as being appropriate and supporting the Ansaldo STS values.

Rights and Sustainability

Ansaldo STS does business in a sustainable manner, with a continued commitment to economic and social development and the protection of human health and the environment.

Ansaldo STS upholds and promotes human rights in every context in which it operates, by creating equal opportunities for its people and fair treatment for all - regardless of any protected characteristics such as race, nationality, political creed, religion, gender, age, minority status, diverse ability, sexual orientation, personal or social condition – and always respecting the dignity of each individual and each employee. Amongst other things Ansaldo STS ensures freedom of assembly and prohibits use of illegal labour.

Ansaldo STS ensures safe and healthy work environments and manages its production processes with the least possible environmental impact, striving to apply a precautionary approach to the protection of human health and the environment.

Ansaldo STS contributes to the social and economic development of the communities and regions in which it operates, also by transferring its technologies and expertise and disseminating its know-how.

Ansaldo STS strives to promote and consolidate a culture of sustainability by developing the awareness of risks and encouraging responsible behaviour from all its stakeholders.

Protection of company assets

The use of corporate assets must comply with the law, applicable regulations and with corporate procedures.

Ansaldo STS adopts appropriate measures and initiatives to protect its intellectual property and not to infringe that of others.

The use of IT and electronic tools must be characterized by the respect for principles of fairness and must ensure the integrity and authenticity of the processed data. Ansaldo STS adopts measures capable of ensuring that access to and the use of electronic and IT data is done in compliance with current regulation and with the privacy of individuals who may be involved.

Relationships with the press and the media are founded upon the respect of the right of information and protection of the market and the interests of stakeholders and conducted in compliance with the Code of Ethics and corporate procedures. It is strictly prohibited that any form of investment be made, originating from the knowledge of inside information.

To safeguard the entirety of the Company assets, it is specifically forbidden, except as expressly permitted by law, to perform extraordinary operations on shares and on other items of the net assets in violation of the regulations for the protection of creditors.

Recipients are required to keep documents, know-how, corporate operations and, in general, all information acquired in the performance of their duties strictly confidential.

Ansaldo STS endeavours to work so that the use of available resources, carried out in compliance with applicable law and the corporate by-laws, and in line with the values of the Code of Ethics, is directed towards increasing and strengthening the Company's assets, in protection of the Company itself, its shareholders, creditors and the market. Therefore, the use of corporate assets must comply with the law and the applicable regulations as well as with operating procedures.

Intellectual Property

Ansaldo STS adopts appropriate measures and initiatives to protect its intellectual property and not to infringe upon that of others. In particular, Ansaldo STS is committed to:

- not performing any act of disposition and/or use, in any form or manner, of trademarks and names and other distinctive signs, even combined ones, of which it does not hold exclusive ownership and/or legitimate title to use;

- ensuring the security, integrity, proper use and operation of systems, programmes or IT and electronic data of the Company or third parties, protecting the related intellectual property rights and the integrity of information made available to the public through the internet.

Moreover, in its relations with suppliers, when the formulas and/or compositions of goods or trademarks to be used for supplies are not indicated or supplied by Ansaldo STS, the Company implements adequate procedures so that the supplier ensures and guarantees that the goods and their intended use do not infringe upon third parties' rights relating to intellectual property (trademarks and patents).

In such relations, the Company adopts appropriate indemnity measures for any claim, legal action and requests for compensation made by third parties due to acts of unfair competition, infringement of patents or patent applications, of trademarks or registered designs and of industrial and intellectual property rights related to raw materials, semi finished goods, finished products, services purchased from third parties.

Finally, Ansaldo STS only uses ideas or creative works (such as, but not limited to, text, sketches, illustrations, designs, trademarks, etc.) of which it has exclusive ownership by virtue of their creation by Ansaldo STS employees or contract rights agreed with third parties by means of contractual documents.

Use of IT tools

The use of IT and electronic communication tools must be characterized by respect for the principle of fairness and must be such to ensure the integrity and authenticity of the processed data, for the protection of the interests of the Company and third parties, with particular reference to authorities and public administrations.

Ansaldo STS adopts measures capable of ensuring that access to electronic and IT data is done in compliance with current regulation and respect for the privacy of individuals to protect the confidentiality of information and to prevent improper interference by unauthorized individuals.

Management of information

Ansaldo STS ensures full transparency of choices made offering the market all necessary information so that the investors' decisions can be based on complete and correct information. The Group's communications are characterized not only by strict compliance with statutory and regulatory provisions but also by comprehensible language, exhaustiveness of information, promptness and informational symmetry in respect of all investors.

Relationships with the press and the media are founded upon the respect of the right of information and protection of the market and the interests of stakeholders and conducted in compliance with the Code of Ethics and corporate procedures.

External communications shall follow the principles of truthfulness, fairness, transparency, congruity and shall aim at disseminating the policies, programmes and plans of the Company.

Any request for information from the press or the media received by personnel of Ansaldo STS shall be reported in advance to the officers in charge of external relations for proper communication.

It is strictly prohibited that any form of investment be made, whether direct or through intermediaries, originating from knowledge of inside information (i.e. information which is not in the public domain and which, if made public, would be likely to affect the price of financial instruments) acquired in the course of the activity carried out within the Group. The communication or dissemination of such information shall not be carried out in any form whatsoever, outside the normal performance of the functions assigned. In compliance with applicable rules and regulations, Ansaldo STS shall adopt appropriate measures to protect price sensitive information, so as to prevent access by any unauthorized person or handling of such information in an inappropriate manner.

Transactions in shares and corporate capital

To safeguard the entirety of the Company assets, it is specifically forbidden, except as expressly permitted by law, to perform extraordinary operations on shares and on other items of the net assets in violation of the regulations for the protection of creditors.

Furthermore, it is forbidden to fictitiously form or increase share capital and to pay off, in case of winding-up, shareholders' claims to the detriment of creditors.

Confidentiality obligations

Due to the peculiarity and importance of the sectors of activity of the Company (such as technologies, protected technologies for railway transportation in safety conditions, scientific research), all Recipients are required to maintain the utmost confidentiality of any proprietary information, and shall not disclose or inappropriately handle information about documents, know-how, research projects, company business activities, and in general about any information acquired in the performance of their duties.

In particular, confidential or secret proprietary information means all information subject to specific laws or regulations as they pertain, for instance, to security in the transportation system, inventions, scientific discoveries, protected technologies or new industrial applications, as well as information declared secret by contract. Confidential information is also all information acquired in the performance of working activities or through such activities, whose circulation and use could jeopardise or harm the Company and/or create unjust enrichment of the employee.

Any breaches of their confidentiality obligations and/or violation of the Code of Ethics by the Recipients would harm the relationship of trust with the Company and may lead to disciplinary action or the application of contractual sanctions.

Implementation of the Code of Ethics

This Code of Ethics applies to all entities of the Ansaldo STS Group. The responsibility for the implementation of the Code of Ethics, its application and updating is a duty of the directors and employees of Ansaldo STS.

Any violations of or failure to apply the Code of Ethics can be reported to a special-purpose Supervisory Body of the Code of Ethics. Persons who make such reports in good faith shall be protected from any form of retaliation.

Ansaldo STS promotes knowledge of and compliance with the Code of Ethics, the specific procedures and their updates among all Recipients. In case of any non-observance, appropriate disciplinary action or contractual sanctions will take place.

Application, dissemination, training

This Code of Ethics applies to all entities of the Ansaldo STS Group. Ansaldo STS promotes the dissemination of the Code of Ethics among the Group's companies so that they implement it as an effective management tool, after adaptation in accordance with prevailing laws and regulation. The responsibility for the implementation of the Code of Ethics and its application is a duty of the directors and employees of Ansaldo STS.
Any violations of or failure to apply the Code of Ethics may be reported to a special-purpose Supervisory Body of the Code of Ethics, identified in the various companies of the Ansaldo STS Group, in accordance with the rules applicable to the specific company. Such body may recommend supplements and amendments to the Code of Ethics. The Company ensures that no-one in the workplace is subject to any retaliation, illegal conditioning and discriminating treatment of any kind, for having made a good faith report of a violation or non-application of the Code of Ethics to the Supervisory Body of the Code of Ethics. As a consequence of the said report, the

Company shall promptly arrange the necessary investigation and take adequate disciplinary measures, in accordance with the rules applicable to the specific company of the Group.

Ansaldo STS promotes the knowledge and obedience of the Code of Ethics, the specific procedures and their updates among all Recipients. In case of any non-observance, appropriate disciplinary action or contractual sanctions will take place. The Recipients are required to be familiar with the contents of the Code of Ethics - asking and receiving any necessary explanations on its interpretation from the company's leadership - to observe the Code and to contribute to its implementation. Employees can report not only to the Supervisory Body of the Code of Ethics, but also to their superiors any deficiency, violations or attempted violations that they are aware of.

Ansaldo STS also promotes and encourages cooperation among the Recipients to develop compliance with, knowledge and implementation of the Code of Ethics and of specific policies and procedures, within the scope of each Recipient's competence and functions.

To this end, the Company provides specific training/informative courses for the Recipients, elaborated in accordance with the different needs and responsibilities of the various participants.

Sanctions system

Violations of the principles set forth in the Code of Ethics and in the specific procedures shall be followed up by Ansaldo STS in accordance with the policies, procedures and regulations applicable to the specific company of the Group.

Annex - Implementation of the Code of Ethics in Ansaldo STS S.p.A.

With regard to the implementation of the Code of Ethics in the holding company Ansaldo STS S.p.A. the following is noted:

- the Supervisory Body of the Code of Ethics coincides with the Supervisory Body of the Organizational, Management and Control Model pursuant to Legislative Decree 231/2001;
- in order to facilitate the flow of notifications and information to the Supervisory Body a dedicated information channel has been set up (OdV@ansaldo-sts.com) through which all who become aware of any unlawful conduct can report, freely, directly and in a confidential manner to the Supervisory Body;
- for a description of the Sanctions System see paragraph 6 of the Organizational, Management and Control Model.

Approved by the Board of Directors
of Ansaldo STS in the meeting
of June 28th 2012.

Available on the company's intranet, section manual (IMS document code MNL 004, rev. 02) and on the internet website (www.ansaldo-sts.com), section Governance/Code of Ethics

Photographic Credits:
Ansaldo STS
Mercurio

Graphic design
mercurio GP
www.mercuriogp.eu

ANSALDO STS S.p.A.

Registered Office in Genoa,
Via P. Mantovani 3-5
Italy

www.ansaldo-sts.com

A Finmeccanica Company

RFP NO. CAP 27-10 NEW ORANGE AND RED LINE VEHICLES B-60
SECTION B
PART B TECHNICAL PROPOSAL AND
STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY
QUALIFICATIONS AND CERTIFICATIONS

1.Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.

Not Applicable

2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.

Gestion Baultar Inc.
101 Principale Sud,
J1S 0H2, Québec, Canada

3. Provide the names, title and telephone numbers of all officers.

Simon Archambault
President
Phone : 819 845 7110

Etienne Archambault
Vice-President
Phone : 819 845 7110

Alexandre Taranto
Secretary
Phone : 819 845 7110

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.

Yes. Please see attached documents

5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.

No.

6. Have any of the business owners, shareholders, or officers every been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.

No.

7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.

No.

BAULTAR
DURABLE SOLUTIONS

8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

Carmel Daunais Dionne, C. d'A. Ass
cdionne@groupeverrier.com
Groupe d'assurances Verrier inc.
430, rue Saint-Georges, bur. 121, Drummondville (Qc) J2C 4H4
Phone: (819) 472-8267
www.groupeverrier.com

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

Carole Adam
Desjardins Entreprises
1815, rue King Ouest
Bureau 300 - Sherbrooke (Québec) J1J 2E3
819 821-2201

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?

No.

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity.

Please refer to attached documents. Year 2013 will be available within a few weeks.

12. Provide the business's current code of business ethics or equivalent.

Not applicable.

2014-05-12

Alexandre Taranto
Secretary

PURCHASE ORDER
MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
10 PARK PLAZA, BOSTON, MASSACHUSETTS 02116

Date of Order	Ship Via	Terms	F.O.B.	Purchase Order Number
05/13/2008	CHEAPEST		Destination	9000003553

PRICES AND TERMS IN ACCORDANCE WITH LETTER OF AGREEMENT DATED OR YOUR QUOTE PROPOSAL NO.

REFER ALL INQUIRIES TO
Noonan, Christine M
617/222-3761

PLACE THIS NUMBER ON ALL CORRESPONDENCES

TO:
BAULTAR CONCEPT INC
101, RUE PRINCIPALE SUD
WINDSOR QC J1S 2M2
Canada

SHIP TO:
WELLINGTON CARHOUSE-ORANGE LNE
37 REVERE BEACH PARKWAY
MEDFORD MA 02155
United States

ITEM #	QUANTITY / DESCRIPTION	U/M	PART NUMBER	DEL. DATE	UNIT PRICE	REQ. / SERIAL NO.
1- 1	1 CK30-7029 Kit, 18 Floor Panels	EA		05/13/2008	$11,846.00000	
2- 1	16 CG27-0031 KIT, PRO SEAL & SET 100 N.S.(5.76 KG)	EA		05/13/2008	$97.61000	
3- 1	8 CG27-0008 KIT,BAULTAFLEX N.S. 2010(1.0 KG)	EA		05/13/2008	$50.84000	
4- 1	125 FK30-001 LEVELING HARDWARE- SCREW ASSY	EA		05/13/2008	$0.60000	
5- 1	1 DB83-0038 SHIPPING CRATE	EA		05/13/2008	$362.16000	
6- 1	1 MATERIAL TRANSPORTATION AND BROKERAGE FEE	EA		05/13/2008	$614.50000	
7- 1	1 TI21-0001	EA		05/13/2008	$5,000.00000	

PROTOTYPE flooring installation for proof of technology to support #14 car specification

Comments/Questions Call Jim Hurley 617-222-2874 or JHurley@mbta.com

Deliver to Wellington Carhouse 37 Revere Beach PKWY, Medford, MA 02155

-Unauthorized- **TOTAL** $19,866.14

Name	Title	Signature
Charles R. Menard, Sr.	Manager of Purchasing	

**PLEASE REMIT INVOICE TO: MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
10 PARK PLAZA, BOSTON, MA 02116 ATTN: A/P DEPT.**

BAULTAR CONCEPT INC.
Résultats et bénéfices non répartis
pour l'exercice terminé le 31 décembre 2012
(non audité - voir avis au lecteur)

	2012	2011
	$	$
Chiffre d'affaires	**8 632 813**	6 766 612
Coût des ventes	**5 712 016**	4 568 400
Bénéfice brut	**2 920 797**	2 198 212
Frais de vente et marketing	**758 864**	563 613
Frais de gestion interne, direction et finances	**1 759 250**	1 278 058
Frais de recherche et de développement (nets des crédits d'impôt)	**457 232**	213 367
Frais d'intérêts	**3 830**	54 999
	2 979 176	2 110 037
	(58 379)	88 175
Autres revenus	**328 259**	266 420
Bénéfice avant impôts sur les bénéfices	**269 880**	354 595
Impôts sur les bénéfices		
Exigibles	**26 600**	18 154
Futurs	**15 000**	30 000
	41 600	48 154
Bénéfice net	**228 280**	306 441
Bénéfices non répartis (déficit) au début	**68 165**	(238 276)
Bénéfices non répartis à la fin	**296 445**	68 165

BAULTAR CONCEPT INC.
Bilan
au 31 décembre 2012
(non audité - voir avis au lecteur)

	2012	2011
	$	$
ACTIF		
Court terme		
Encaisse	**373 366**	421 884
Comptes clients et autres créances (note 2)	**1 356 930**	1 559 752
Stocks, au coût	**1 580 703**	1 263 295
Frais payés d'avance	**69 065**	71 485
	3 380 064	3 316 416
Long terme		
Crédits d'impôt à l'investissement à recevoir	**27 248**	71 180
Immobilisations corporelles		735
Actif d'impôts futurs	**95 000**	110 000
	3 502 312	3 498 331
PASSIF		
Court terme		
Créditeurs (note 3)	**911 924**	992 879
Produits reportés	**9 119**	2 874
Tranche de la dette à long terme échéant à moins de un an	**112 660**	316 634
	1 033 703	1 312 387
Long terme		
Provision pour garantie	**196 009**	195 175
Dette à long terme (note 4)	**1 613 065**	1 559 514
	2 842 777	3 067 076
CAPITAUX PROPRES		
Capital-actions (note 5)	**363 090**	363 090
Bénéfices non répartis	**296 445**	68 165
	659 535	431 255
	3 502 312	3 498 331

Pour le conseil,

Administrateur

Administrateur

BAULTAR CONCEPT

Baultar Concept Inc.
101 Principale Sud
Windsor (Quebec) J1S 2M2
Tél: 819-845-7110 Fax: 819-845-5600

INVOICE

Invoice	:	**17604**
Date of Invoice	:	**2008/07/16**
Shipment date	:	**2008/07/16**
Packing Slip	:	**17604**
Page	:	**1 / 2**

Sold by:

Customer no: **MBTA**

Sold to:
MASSACHUSSETS BAY TRANSPORTATI
A/P DEPT.
10 PARK PLAZA
BOSTON, MASSACHUSETTS
USA, 02116
Tel: Fax:

Shipped to:
WELLINGTON CARHOUSE-ORANGE LNE
37 REVERE BEACH PARKWAY
MEDFORD, MASSACHUSETTS
USA, 02155
Tel: Fax:

Contact:

No PO: 9000003553

Terms of Payment: 30 jours/Day **Carrier:** TST OVERLAND **F.O.B.:** PREPAID

CODE / DESCRIPTION	QTY ORD	QTY SHP	QTY TO COME	#ORD	$ UNIT	TOTAL
CK30-7029 KIT, Abrastop/fibre ITEM 1-1 DUTY CLASS.: 3921.19.0000	1 UN.	1	0	JB08-7425	11846.00	11 846,00$
CG27-0031 KIT, Pro Seal & Set 100 N.S. 2 Components, urethane adhesive Complete with: part A base + part B activator Total : 6.5 Kg ITEM 2-1 DUTY CLASS.: 3506.91	16 UN.	16	0	JB08-7426	97.61	1 561,76$
CG27-0044 KIT, Baultaflex NS 2010 2 parts epoxy Seam Compound, 1 kg kit Complete with: 1 CG37-0027 (Baultaflex "A" 0.5kg) 1 CG47-0011 (Baultaflex "B" 0.5kg) 2 DB71-5027 (Caulking tube kit) Color: Beige Red WARNING - This product has a 6 months shelf life! 1KG ITEM 3-1 DUTY CLASS.: 3214.90.50	8 UN. 1KG	8	0	JB08-7427	50.84	406,72$
FK30-0001 Levelling Hardware-Screw Ass'y Panel leveling clip for Abrastop only ITEM 4-1 DUTY CLASS.: 7326.90	125 UN.	125	0	JB08-7428	0.60	75,00$
DB83-0038 BOX, expedition ITEM 5-1	1 UN.	1	0	JB08-7429	362.16	362,16$

BAULTAR CONCEPT

Baultar Concept Inc.
101 Principale Sud
Windsor (Quebec) J1S 2M2
Tél: 819-845-7110 Fax: 819-845-5600

INVOICE

Invoice	:	**17604**
Date of Invoice	:	**2008/07/16**
Shipment date	:	**2008/07/16**
Packing Slip	:	**17604**
Page	:	**2 / 2**

Sold by:

Customer no: **MBTA**

Sold to:
MASSACHUSSETS BAY TRANSPORTATI
A/P DEPT.
10 PARK PLAZA
BOSTON, MASSACHUSETTS
USA, 02116
Tel: Fax:

Shipped to:
WELLINGTON CARHOUSE-ORANGE LNE
37 REVERE BEACH PARKWAY
MEDFORD, MASSACHUSETTS
USA, 02155
Tel: Fax:

Contact:

No PO: 9000003553

Terms of Payment: 30 jours/Day **Carrier:** TST OVERLAND **F.O.B.:** PREPAID

CODE / DESCRIPTION	QTY ORD	QTY SHP	QTY TO COME	#ORD	$ UNIT	TOTAL

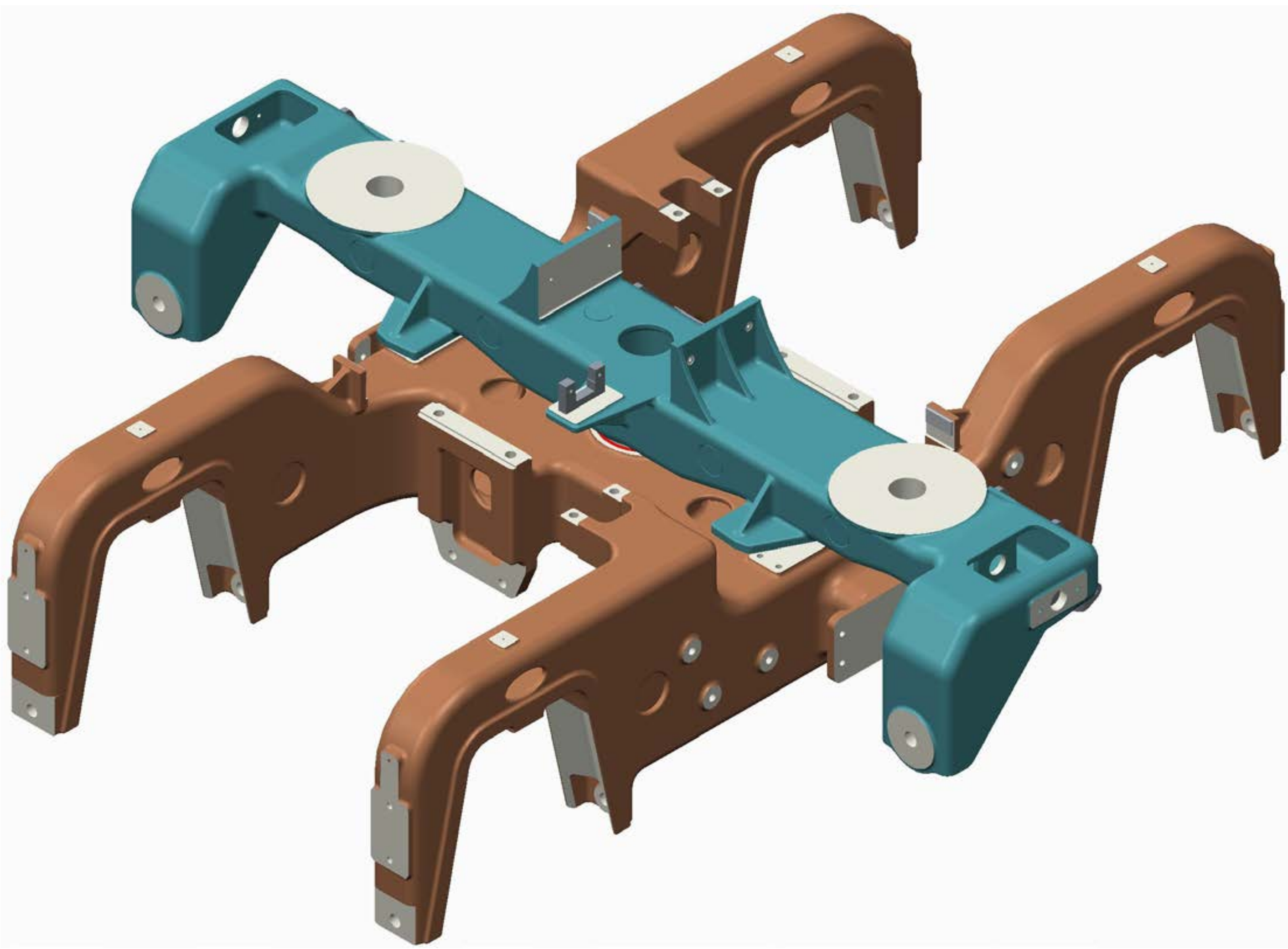
ALL WOODEN PACKAGING USED IN THIS SHIPMENT IS MADE IN CANADA

MADE IN CANADA
DUTY AND BROKERAGE NOT INCLUDED CHARGE TO THE SHIPPER
USE UPS SCS FOR CUSTOM CLEARANCE
TAX ID: 98-0442398

SUB TOTAL	14 251,64 $
GST	0,00 $
PST	0,00 $
TOTAL	14 251,64 $U

0 853831949RT0001
0 1207658649TQ0001

BRADKEN **Bradken® - Atchison/St. Joseph**



MBTA Questions Concerning Eligibility & Manufacturing Capability MBTA RFP NO. CAP 27-10

MBTA Questions

A. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.
Bradken Answer: *Bradken has no reason to not be in good standing with the State of Massachusetts.*

B. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.
Bradken Answer: *The information is available at: www.bradken.com*

C. Provide the names, title and telephone numbers of all officers.
Bradken Answer: *The information is available at: www.bradken.com*

D. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.
Bradken Answer: *No previous contracts with MBTA for components supplied by Bradken*

E. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.
Bradken Answer: *No defaults with MBTA, the State of Massachusetts or any federal agency*

F. Have any of the business owners, shareholders, or officers every been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.
Bradken Answer: *No convictions of felony violations of Federal, state or local laws.*

G. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.
Bradken Answer: *No pending lawsuits against Bradken, owners or shareholders*

H. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.
Bradken Answer: *John Gertken | Senior Account Executive*
Aon Risk Solutions
8182 Maryland Avenue, Suite 1500
St. Louis, MO 63105
Phone (314) 719-9742 | Fax (847) 953-0789
Cell (312) 391-9742 | Email john.gertken@aon.com
CA License # 0C56204

I. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.
Bradken Answer: *See attached document*

J. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?
Bradken Answer: *Bradken, Inc. is wholly owned by Bradken Operations Pty. Ltd. Bradken Operations Pty. Ltd. Has not filed for bankruptcy or invoked insolvency proceedings in Australia where they are incorporated and based.*

K. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity.
Bradken Answer: *Information provided at* http://bradken.com/investorcentre/financialreports

L. Provide the business's current code of business ethics or equivalent.
Bradken Answer: *Information provided at* http://bradken.com/documents/general/code-of-conduct.pdf?sfvrsn=3

M. Provide information showing North American manufacturing locations, experience, and capacities.
Bradken Answer: *See information in item "O" below*

N. Identify the type of equipment being proposed and where and in what quantities similar equipment is in use in North America and other locations.
Bradken Answer: *Bradken H-5 truck design, in revenue service for 37 years with the Toronto Transit Commission*

O. Indicate locations where all proposed equipment will be manufactured and assembled.
Bradken Answer: *Foundry – 400 4th South Street, Atchison, Kansas 66002*
Machine & Assembly Shop – 3811 South 48th Terrace, St. Joseph, Missouri 64503

P. Provide manufacturing capacities at these proposed manufacturing locations available for this project.
Bradken Answer: *Foundry – steel castings ranging from 500 lb to 55,000 lb*
Machine & Ass'y Shop – variety of CNC machines, paint booth and assembly area.

BRADKEN®
400 S. 4th Street
PO Box 188
Atchison, KS 66002`

T +1 913 367 2121
F +1 913 367 0877

BRADKEN

Owner – Bradken, Inc. (see www.Bradken.com)

Duns #
14-187-4821 - Bradken, Inc. (see www.Bradken.com)

Federal ID #'s
Bradken, Inc. 30-0258772 (Delaware)

Tax Exception #'s
Atchison, KS Facility 743110041F-01
St. Joseph, MO Facility 18628591

Credit References:

Miller and Company LLC
9700 West Higgins Rd. Suite 1000
Rosemont, IL 60018
Bob Overman 847-696-2400
Boverman@millerandco.com (fax 847-696-2428)

Progress Rail – A Caterpillar Company
1600 Progress Rail Drive
Albertville, AL 35950
Jane Denson 256-505-6568
jdenson@progressrail.com (fax 256-505-6435)

Constellation Energy
11011 "Q" Street
Omaha, NE 68137
Nita Cox nita.cox@constellation.com
Phone 502-214-6304 Fax 502-426-8800

HA-International LLC
630 Oakmont Lane
Westmont, IL 60559
Dennis Ziegler dennis.ziegler@ha-international.com
Phone 630-575-5734 Fax 630-575-5815

Bank Reference:
Bank of America
100 West 33rd Street
New York, NY 10001 Officer: Danny Chun +1 213 621 4952 danny.chun@baml.com
Acct # 1233193583 Acct Name: Bradken, Inc. ABA Routing # 026009593
SWIFT (if coming in international) BOFAUS3N

Executives (fax 913-367-2130**)**:
Kevin McDermed – President-Industrial Division 816-270-0700
Mike Funk –Vice President Operations. 913-367-2121 ext. 4300

Accounts Payable Contact:
Sarah Donley 913-367-2121 ext. 4265 (fax 913-367-1093)

Purchasing Contacts (fax 913-367-0877):
Cameron Feek 913-367-2121 ext. 4296
Ben Kidwell 913-367-2121 ext. 4337
RD Jones 913-367-2121 ext. 4255
Jon Kujawa 913-367-2121 ext 4611

Purchase Orders Required

Corporate Web Site: www.bradken.com

MR BRIAN W HODGES

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER (AGE 60)

Brian has been Chief Executive of the Bradken business since 1997. He has guided Bradken and its culture through periods of considerable change and corporate activity with four different owners during his tenure as Chief Executive. Over the course of his career, Brian has gained considerable management and leadership experience in raw material production and processing, supply and logistics and steel manufacturing. Brian holds a Bachelor of Chemical Engineering with Honours from the University of Newcastle.

MR STEVEN PERRY

CHIEF FINANCIAL OFFICER (AGE 47)

Steven has been with Bradken since 1990. Having progressed through various other finance-based roles he was appointed Chief Financial Officer in 2011 after nine years as Commercial Manager Mining Products. He is responsible for finance, treasury, taxation, investor relations, investments, and audit and insurance. Steven holds a Bachelor of Commerce (Accounting) from the University of Newcastle, a Master of Business Administration (Advanced) from the University of Western Australia and is a member of CPA Australia.

MR WAYNE G HERBERTSON

GENERAL MANAGER HUMAN RESOURCES (AGE 52)

Wayne was appointed General Manager Human Resources in December 2004. He is responsible for all aspects of human resources, occupational health and safety and management systems. Prior to joining the Bradken business, Wayne held senior positions with Siemens and BHP Steel. Wayne holds a Master of Applied Science Metallurgy, Bachelor of Applied Science Metallurgy, Bachelor of

Applied Science Multidiscipline, Associate Diploma of Theology and a Diploma in Occupational Health and Safety.

MR JOHN SAAD
CHIEF TECHNICAL OFFICER (AGE 50)
John has been with Bradken for 24 years and was appointed Chief Technical Officer in March 2005. He is responsible for Bradken's technological direction, process and product innovation and advancement. John has had considerable experience in all divisions of Bradken previously occupying positions as a multi-site manufacturing manager, Technical and Product Development Manager for Mineral Processing and Head of Rail Engineering. He assumed responsibility for the CMS Industrial Services business in June 2009. John holds a Bachelor Degree in Metallurgical Engineering from the University of New South Wales.

MR ENDA SHERIDAN
EXECUTIVE GENERAL MANAGER MINING PRODUCTS (AGE 49)
Enda has been with the Bradken business for 21 years and was appointed General Manager Mining in 2004 following five years as General Manager Industrial. His responsibilities include the management of the Mining business and Bradken’s manufacturing facilities at Runcorn and Mackay in Queensland, Welshpool, Wundowie and Bassendean in Western Australia, Mount Thorley and Muswellbrook in New South Wales and Wodonga in Victoria. Enda has held a number of production, technical and marketing positions with Bradken. Enda holds a Bachelor of Materials Engineering from the University of Limerick, Ireland and a Master of Business Administration from the University of Newcastle.

MR ANDREW J ALLEN
GENERAL MANAGER BUSINESS DEVELOPMENT (AGE 51)

Andrew has a 30 year career history with Bradken and was appointed General Manager Business Development in May 2011. Prior to this Andrew was General Manager of the Rail Division from June 2009, General Manager of Bradken's Industrial Division from 2004, following his appointment as General Manager Mineral Processing in 1998. In his new role as head of the Corporate Strategy Group, he will focus on expediting Bradken's global expansion of manufacturing and new business opportunities. He has gained extensive manufacturing and technical expertise over his long operational and management history within the Bradken business. Andrew holds an Associate Diploma in Metallurgy Engineering from The Sydney Technical College.

MR STEPHEN P CANTWELL
GENERAL MANAGER RAIL (AGE 53)

Stephen joined Bradken in July 2011 with more than 30 years' experience in a broad range of strategic, functional and customer-facing roles within multi-billion dollar national and international business environments. As a leading Australasian transport and logistics executive with a combination of extensive functional, operational and commercial experience, Stephen brings his executive management experience in business development, corporate strategy and planning to Bradken's Rail Division as it progresses from a freight car manufacturer to a full service provider. Stephen holds a Business Degree majoring in Operations Research and Information Systems from The University of Southern Queensland, a Graduate Diploma in Transport Management and a Master of Business Degree from The Royal Melbourne Institute of Technology.

He is also a fellow of the Chartered Institute of Transport and Logistics and the Centre for Integrated Engineering Management.

KEVIN T MCDERMED

CHIEF OPERATING OFFICER ENGINEERED PRODUCTS (AGE 54)

Kevin was named the Chief Operating Officer of the Engineered Products Division in October 2013. He joined Bradken as part of the AmeriCast Technologies acquisition in August 2008, serving as President of the Industrial Products business unit from that time. Kevin previously served as the Chief Financial Officer of AmeriCast, and its predecessor Atchison Casting Corporation, for 17 years. Kevin holds a Bachelor of Science in Business Administration degree from Kansas State University and an MBA from Washburn University.

MR BRADLEY J WARD

EXECUTIVE GENERAL MANAGER - MINERAL PROCESSING (AGE 47)

Brad has been with the Bradken business for 27 years and was appointed Executive General Manager – Mineral Processing in June 2012. Prior to this appointment Brad held the position of President – Resource Products in the United States from July 2009, having previously held the positions of President – Bradken Products and Integration in the United States following the 2008 acquisition of Americast, and General Manager of the Mineral Processing Division in Australia. Brad has gained extensive management, sales, marketing and manufacturing experience over his extensive operational and management career with the Bradken Group and in his current role manages Bradken's Mineral Processing consumable products global business.

20 McIntosh Drive, Mayfield West NSW 2304, Australia
PO BOX 105, Waratah NSW 2298 Australia
T **+61 2 4926 8200**
F **+61 2 4926 8201**

ENGINEERED PRODUCTS
Suite 647, 12200 NW Ambassador Drv
Kansas City MO 64163 USA
T **+1 816 270 0700**
F **+1 816 270 0799**

Bradken®
Bradken Limited (ABN 33 108 693 009)
2 Maud Street Mayfield West NSW 2304 PO Box 105 Waratah NSW 2298 Australia
Phone: +61 (0) 2 4941 2600 Fax: +61 (0) 2 4967 5003
Internet: www.bradken.com.au e-mail: bradken@bradken.com.au

9 August 2011

Manager, Company Announcements
Australian Stock Exchange Limited
Level 4
20 Bridge Street
Sydney NSW 2000

Dear Sir

Please find attached the Company's announcement of it's results for the 2010/11 year, for immediate release to the market.

Included in this announcement is Appendix 4E and the Full Financial Report for the period to 30 June 2011.

Yours faithfully

Bruce Arnott
Company Secretary
Encl:

BRADKEN LIMITED

Appendix 4E

Full Year Report Period Ended 30 June 2011

Results for Announcement to the Market

	Percentage Change			$'000
Revenues from ordinary activities	Up	14.4%	to	1,153,848
Profit (loss) from ordinary activities after tax attributable to members before material one off items	Up	23.6%	to	87,082
Profit (loss) from ordinary activities after tax attributable to members	Down	-4.1%	to	67,561
Net Profit (loss) for the period attributable to members	Down	-4.1%	to	67,561

Dividends

	Amount per Security	Percentage Franked
Current period:		
Final Dividend	21.0 cents	100%
Date the dividend is payable:	19 September 2011	
Record Date for determining entitlements to the dividend:	19 August 2011	
Interim Dividend	18.5 cents	100%
Prior corresponding period:		
Final Dividend	21.0 cents	100%
Interim Dividend	13.0 cents	100%

Net Tangible Assets per Security	
As at 30 June 2011	$2.88
As at 30 June 2010	$2.10

Contents

Directors	Nicholas Greiner, AC, B.Ec., MBA *Independent Non-Executive Chairman*
	Brian Hodges, B.Chem.Eng. (Hons) *Managing Director and Chief Executive Officer*
	Phil Arnall, B.Com. *Independent Non Executive Director*
	Dr Eileen Doyle, PhD *Independent Non Executive Director*
	Greg Laurie, B.Com. *Independent Non Executive Director*
	Vince O'Rourke, AM, B.Ec. *Independent Non Executive Director*
	Peter Richards, B.Com. *Independent Non Executive Director*
Secretary	Bruce Arnott, B.Com.
Business unit general managers	**Mining Products and Industrial** Enda Sheridan
	Rail Andrew Allen
	Engineered Products Tom Armstrong
Notice of annual general meeting	The annual general meeting of Bradken Limited **will be held at** Crown Plaza Cnr Merewether Street & Wharf Road, Newcastle NSW **time** 2:30pm **Date** 5 October 2011
Principal registered office in Australia	2 Maud Street Mayfield West NSW 2304 Telephone: +61 2 4941 2600
Share registry	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Telephone: +61 2 8280 7519
Auditor	PricewaterhouseCoopers 26 Honeysuckle Drive Newcastle NSW 2300
Stock exchange listings	Bradken Limited shares are listed on the Australian Stock Exchange. The home exchange is Sydney.
Web site address	www.bradken.com

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Bradken Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2011.

The report has been divided into five sections as follows:

A. General information
B. Corporate governance
C. Review of operations
D. Remuneration report
E. Other information

A. General information

Principal activities

During the year the principal activities of the Group consisted of:

- supply and service of wear components for mining and earthmoving equipment
- supply of equipment and consumables to the mineral processing, quarrying and power markets
- supply of cast, machined and fabricated components and highly engineered steel castings to the energy, industrial and rail transport industries
- manufacture and maintenance of freight rollingstock products
- supply of foundry consumables to the foundry and steelmaking industries

There were no major changes in the nature of the activities of the Group during the period.

Directors

The following persons were directors of Bradken Limited during the whole of the financial year and up to the date of this report unless otherwise noted:

Nick Greiner	Greg Laurie	Eileen Doyle - from 1 July 2011
Brian Hodges	Vince O'Rourke	
Phil Arnall	Peter Richards	

Information on directors

Nick Greiner, AC, B.Ec., MBA. *Independent Non-Executive Chairman.* Age 64.

Experience and expertise

Chairman of Bradken Limited since 2004. Extensive experience in corporate roles. Formerly, Premier and Treasurer of New South Wales.

Other current directorships

Chairman of Infrastructure NSW, Chairman of QBE Lenders' Mortgage Insurance, Chairman of Nuance Global Traders, Deputy Chairman of Champ Private Equity and a director of various private groups.

Former directorships in the last three years

Chairman of Valemus Australia Pty Limited (formerly Bilfinger Berger Australia) , Chairman of Citigroup Australia, Deputy Chairman of Stockland Limited.

Special responsibilities

Member of Human Resource Committee.

Interest in shares

363,789 ordinary shares in Bradken Limited.

Brian Hodges, B.Chem.Eng. (Hons). *Managing Director.* Age 58.

Experience and expertise

Managing Director of the Bradken business since 2001. Formerly General Manager of the Bradken business from 1997. Extensive management and engineering experience in Australia for BHP, Australian National Industries and the Smorgon Steel Group.

Other current directorships

None.

A. General information (continued)

Former directorships in the last three years
None

Special responsibilities
Managing Director.

Interest in shares and rights
2,352,224 ordinary shares in Bradken Limited.
253,898 rights over ordinary shares in Bradken Limited.

Phil Arnall, B.Com. *Independent Non-Executive Director.* Age 66.
Experience and expertise
Director of Bradken Limited since 2004. Extensive experience in mining and steel industries in management positions. Held senior management positions with Smorgon Steel Group and Australian National Industries.

Other current directorships
Chairman of Ludowici Limited and non-executive director of AJ Lucas Limited and Macquarie Generation.

Former directorships in the last three years
Chairman of Capral Limited.

Special responsibilities
Member of Audit and Risk Committee and member of Human Resource Committee.

Interest in shares
502,749 ordinary shares in Bradken Limited.

Dr Eileen Doyle, PhD *Independent Non-Executive Director.* Age 56.
Experience and expertise
Director of Bradken Limited since 1 July 2011. Over 30 years of experience in the materials and water industries in Australia, including senior executive roles in BHP, Hunter Water and CSR. A founding Director of OneSteel Limited and board member for 10 years and Chairman of Port Waratah Coal Services Pty Ltd for 11 years.

Other current directorships
Non-executive director of Boral Group Limited and GPT Group Limited. Chairman of the Hunter Valley Research Foundation and a board member of the CSIRO.

Former directorships in the last three years
Director of Onesteel Limited, Ross Human Directions Limited and Steel and Tube Limited (NZ).

Special responsibilities
Member of Audit and Risk Committee and member of Human Resource Committee.

Interest in shares
Zero ordinary shares in Bradken Limited.

Greg Laurie, B.Com. *Independent Non-Executive Director.* Age 69.
Experience and expertise
Director of Bradken Limited since 2005. Extensive experience in manufacturing and distribution industries. Formerly Finance Director of Crane Group Limited and CFO of Rheem Australia Limited.

Other current directorships
Independent non-executive director of Nick Scali Limited and various private groups.

Former directorships in the last three years
None.

Special responsibilities
Chairman of Audit and Risk Committee.

Interest in shares
59,340 ordinary shares in Bradken Limited.

A. General information (continued)

Vince O'Rourke, AM, B.Ec. *Independent Non-Executive Director.* Age 75.

Experience and expertise

Director of Bradken Limited since 2004. Extensive experience in the rail transport industry, 10 years as Chief Executive of Queensland Rail.

Other current directorships

Chairman of the Workplace Health and Safety Board of Queensland, Rail Innovation Australia Pty Ltd, a non-executive director of Yancoal Pty Ltd and White Energy Company Ltd (formerly South Australian Coal Pty Ltd) and a board member of Mater Health Services Brisbane Limited.

Former directorships in the last three years

Director of Felix Resources Limited, Taylor Rail Pty Ltd and Chairman of the Co-operative Research Centre for Rail Engineering and Technologies.

Special responsibilities

Chairman of Human Resource Committee.

Interest in shares

79,274 ordinary shares in Bradken Limited.

Peter Richards, B.Com. *Independent Non-Executive Director.* Age 52.

Experience and expertise

Appointed Director of Bradken Limited in 2009. Over 30 years of business and international experience with global companies including BP plc, Wesfarmers Ltd and most recently as CEO of Dyno Nobel Limited.

Other current directorships

Non-executive director and chairman of Kangaroo Resources Limited and Minbos Resources Limited and a non-executive director of Emeco Holdings Limited, Sedgman Limited, Norfolk Group Limited and NSL Consolidated Limited.

Former directorships in the last three years

Dyno Nobel Limited.

Special responsibilities

Member of Audit and Risk Committee.

Interest in shares

22,148 ordinary shares in Bradken Limited.

Company Secretary

The Company Secretary is Mr Bruce Arnott, B.Com, CPA. Mr Arnott joined the Group in 2005 as Chief Financial Officer (CFO) and is also responsible for accounting, finance, treasury, taxation, supply, investor relations, investments, audit, risk and insurance. Prior to joining Bradken Mr Arnott held various senior finance positions within OneSteel, BHP and Tubemakers.

Meetings of directors

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2011, and the number of meetings attended by each director were:

Director	Full meetings of directors *		Audit and Risk Committee meetings		Human Resource Committee meetings	
	A	B	A	B	A	B
Nick Greiner	12	12	**	**	3	3
Brian Hodges	12	12	**	**	**	**
Phil Arnall	11	12	5	5	3	3
Greg Laurie	11	12	5	5	**	**
Vince O'Rourke	11	12	3	5	3	3
Peter Richards	12	12	5	5	**	**

A Number of meetings attended

B Number of meetings held during the time the director held office during the period

* Bradken Limited does not have a fully constituted Nominations Committee, however, as and when required the full Board participates as the Nominations Committee in order to fulfill its corporate governance responsibilities

** = Not a member of the relevant committee

B. Corporate governance

The Company and the Board are committed to achieving and demonstrating the highest standards of corporate governance. This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in 2010 unless otherwise stated.

The relationship between the Board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives.

A description of the Group's main corporate governance practices is set out below and on the Company's web site. All these practices, unless otherwise stated, were in place for the entire year.

The board of directors

The Board operates in accordance with broad principles set out in its charter which is available from the corporate governance information section of the Company's website at www.bradken.com. The charter details the Board's composition and responsibilities.

Board composition

The charter states:

- the Board comprise both executive and non-executive directors with a majority of non-executive directors, and one executive director being the Managing Director / Chief Executive Officer
- in recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairman must be an independent non-executive director, the majority of the Board must be independent of management and all directors are required to bring independent judgement to bear in their Board decision making
- the Chairman is elected by the full Board and is required to meet regularly with the Managing Director
- the Company is to maintain a mix of directors from different backgrounds with complementary skills and experience both nationally and internationally with a majority of directors having knowledge of the Group or related industries and/or financial expertise
- the Board is required to undertake an annual board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy
- reviewing and approving the business plans, the annual budget and financial plans including available resources and capital expenditure initiatives
- overseeing and monitoring:
  - organisational performance and the achievement of the Group's strategic goals and objectives
  - compliance with the Company's Code of Conduct (see page 9)
  - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Group's auditors
- appointment, performance assessment and, if necessary, removal of the Managing Director
- ratifying the appointment and/or removal and contributing to the performance assessment of the members of the senior management team including the CFO / Company Secretary
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the Group
- overseeing the operation of the Group's system for compliance and risk management.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading "Information on directors". As at the date of this report the Board of the Company comprises six non-executive directors, all of whom are considered independent under the principles set out below, and the Managing Director.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the Board is conducive to effective discussion and efficient decision-making.

B. Corporate governance (continued)

Directors' independence

An independent director is a director who is not a member of management (a non-executive director) and who:

- holds less than 5% of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than 5% of the voting shares of the Company
- has not within the last three years been employed in an executive capacity by the Company or another Group member
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another Group member
- is not a material supplier to or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer
- has no material contractual relationship with the Company or another Group member other than as a director of the Company
- has not served on the Board of the Group for a period which could materially interfere with the Director's ability to act in the best interests of the Group
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Group.

The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

Term of office

The Board Charter recommends a maximum period of 12 years service as a director, subject to re-elections every year by rotation such that 1/3 of the directors are subject to re-election each year

The Company's Constitution specifies the tenure of the Managing Director is limited to that of his Executive Office.

Commitment

The Board has established a framework for the management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds nine scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Managing Director and Company Secretary. Standing items include the Managing Director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

To assist in the execution of its responsibilities, the Board has established a Human Resource Committee and an Audit and Risk Committee. These Committees have written mandates and operating procedures, which are reviewed on a regular basis.

The commitments of non-executive directors are considered by the Board prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time to discharge their responsibilities to the Company.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group.

Where the Board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

There were no director related entity transactions with companies of the Group.

Independent professional advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice from a suitably qualified adviser at the Group's expense. Prior written approval from the Chairman is required, but this will not be unreasonably withheld.

Performance assessment

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. Management are invited to contribute to this appraisal process. The results and any action plans are documented. The most recent assessment was undertaken in August 2010.

The Chairman meets privately with each director to discuss this assessment and their individual situation.

Corporate reporting

The Managing Director and the CFO have made the following certifications to the Board:

- that the Group's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards

B. Corporate governance (continued)

- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Group's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Human Resource Committee and the Audit and Risk Committee. Each is comprised entirely of non-executive directors. The committee structure and membership is reviewed on an annual basis.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company website. All matters determined by the committees are submitted to the full board as recommendations for board decisions.

Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Bradken Limited does not have a fully constituted Nominations Committee, however, as and when required the full Board participates as the Nominations Committee in order to fulfill its corporate governance responsibilities in regard to:

- Board appointments and performance;
- Directors’ induction program;
- Committee membership;
- Other relevant matters.

The full Board undertakes the functions of a Nominations Committee as described in the ASX Corporate Governance Council’s Principles of Good Corporate Governance and Best Practice Recommendations.

Human Resource Committee

The Human Resource Committee consists of the following non-executive directors:

Vince O'Rourke (Chairman)

Eileen Doyle

Nick Greiner

Phil Arnall

Details of these directors attendance at Committee meetings are set out in the directors' report on page 4.

The Human Resource Committee operates in accordance with its charter which is available on the Company website. The Human Resource Committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for the executive directors, other senior executives and non-executive directors.

The Human Resource Committee's terms of reference include:

- reviewing and approving remuneration policies including proposed short and long term incentives, superannuation, recruitment, redundancy/termination and other major personnel practices that will attract, motivate and retain high quality employees
- recommending to the Board the total employment cost of the Managing Director and approving the total employment cost of senior executives reporting to that position. The total cost being base pay, short and long term incentives (including shares and options), superannuation and other benefits
- recommending to the Board the entitlements under incentive plans for the Managing Director, including linkages to specific goals and objectives. Approve entitlements for senior executives reporting to that position
- recommending to the Board any service contracts for the Managing Director and approve service contracts for senior executives reporting to that position
- reviewing the personal development plans for senior executives to maintain a pool of capable senior management
- reviewing the development of management succession planning to ensure ongoing professional management of the Group and the development of the individuals
- reviewing the Group’s development of human resource plans, training, workplace safety and environment systems designed to enhance corporate and individual performance
- overseeing the planning and development of business continuity, crisis management and quality and safety management systems
- undertaking any special projects delegated by the Board or deemed necessary by the Committee

Further information on directors' and executive remuneration is set out in the directors' report under the heading "Remuneration Report".

B. Corporate governance (continued)

Audit and Risk Committee

The Audit and Risk Committee consists of the following non-executive directors:

Greg Laurie (Chairman)

Phil Arnall

Eileen Doyle - appointed 20 July 2011

Vince O'Rourke - retired 20 July 2011

Peter Richards

Details of these directors attendance at Committee meetings are set out in the directors' report on page 4.

The Audit and Risk Committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the businesses and markets in which the Group operates.

The Audit and Risk Committee operates in accordance with a charter which is available on the Company website. The main responsibilities of the Audit and Risk Committee are to:

- review and assess the integrity of the financial statements of the Group
- assess the suitability of the Group's accounting policies and processes
- ensure a process is in place to assess the adequacy and effectiveness of the Group's internal control processes
- act as an interface between the Board and the external auditors
- liaise with the external auditors on the conduct of the external audit
- review reports on the Group's financial statements and other matters, prepared by the external auditors
- review any proposed provision of non-audit services by the external auditors
- ensure the independence of the external auditors
- consider the competence and assess the performance of the external auditors
- overview the effectiveness of the internal audit function
- ensure there is an appropriate process for the identification and management of business risks
- ensure a process is in place to monitor the Group's compliance with relevant laws and regulations
- review and monitor related party transactions and assess their propriety
- report to the Board on matters relevant to the Committee's role and responsibilities
- make recommendations to the Board in relation to the appointment, removal and remuneration of the external auditor.

The Audit and Risk Committee meets with the external and internal auditors on a regular basis. It reviews its performance and effectiveness periodically and reviews its charter and makes recommendations to the Board on its charter annually.

In fulfilling its responsibilities, the Audit and Risk Committee:

- receives regular reports from management, the external auditors and the internal auditors
- assesses the suitability of the Group's financial accounting policies, practices and procedures and the compliance with regulatory requirements
- reviews the processes the CEO and the CFO have in place to support their certifications to the Board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- meets separately with the external and internal auditors at least twice a year without the presence of management
- provides the external and internal auditors with a clear line of direct communication at any time to either the Chairman of the Audit and Risk Committee or the Chairman of the Board.

The Audit and Risk Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

The Group policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. PricewaterhouseCoopers was appointed as the external auditor in 2005. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 25 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee.

The external auditor is required to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

B. Corporate governance (continued)

Risk assessment and management

Bradken is committed to managing risk to protect it's people, the environment, Group assets, the community and it's reputation. Bradken operates an Enterprise Risk Management process consistent with international standards to manage it's business risk. This risk-based system helps the Group operate effectively and efficiently, achieve business objectives, ensure reliable reporting and comply with applicable laws and regulations.

The Board implements this policy by overseeing the establishment and implementation of the risk management system through the Audit and Risk Committee, reviewing the effectiveness of the Group's implementation of that system.

Not all aspects of risk management can be formalised and Bradken places considerable reliance on the skill, experience and judgement of its people to make risk based decisions within the policy framework, and to communicate openly on all risk related matters.

The environment, health and safety management system (EHSMS)

The Group recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the EHSMS was established to facilitate the systematic identification of environmental and OH&S issues and to ensure they are managed in a structured way. This system has been operating for a number of years and allows the Group to:

- progressively implement a corporate environmental management system that is independently certified to international standards ISO 14001 at all major sites.
- implement the Bradken 21 Step Safety plan at all sites
- monitor its systems compliance with all relevant OH&S and environmental legislation
- continually assess and improve the impact of its operations on the environment
- encourage employees to actively participate in the management of environmental and OH&S issues
- work with trade associations representing the Group's businesses to raise standards
- use energy and other resources as efficiently as practicable, and
- encourage the adoption of similar standards by the Group's principal suppliers and contractors.

Recently acquired operations are currently implementing environmental management systems. The Group continues to implement projects that improve the Group's environmental performance and to address any community concerns in the vicinity of manufacturing sites. Information on compliance with significant environmental regulations is set out in section E of this report on page 21.

Code of conduct

All directors, managers and employees are expected to act with the utmost integrity, objectivity and in compliance with the letter and spirit of the law and Group policies, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

The Group has advised each director, manager and employee that they must comply with the Group's Whistleblower Policy. The Policy may be viewed on the Company's website, and it covers the following:

- encouraging employees to report any behaviour that may be dishonest, fraudulent, corrupt, illegal, in breach of Commonwealth or State Legislation, unethical, improper, unsafe or any other behaviour that may cause financial or non-financial loss to the Group or would be otherwise detrimental to the interests of the Group
- ensuring that the Group complies with its obligations to protect the reporter of any such behaviour.

The Company also has a Securities Trading Policy (available on the Company's website) which details the insider trading provisions of the Corporations Act 2001. In summary, trading of the Company's shares is restricted to a period of six weeks after the release of the Group's half-year and annual results to the Australian Stock Exchange (ASX), the Annual General Meeting of the Company, at any time a prospectus or similar disclosure document has been lodged with ASIC and is open for acceptances and at such other times as the Board of Directors declare trading permissible. These windows are not available to individuals that posess inside information.

Continuous disclosure and shareholder communication

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that, a reasonable person would expect, may have a material effect on the price of the Company's securities, notifying each matter to the ASX, posting them on the Company's website, and issuing media releases. Full details of the policy are available on the Company's website.

In summary, the Continuous Disclosure Policy operates as follows:

- the Chairman, the Managing Director and the Company Secretary comprise the Disclosure Committee. The responsibilities of the Disclosure Committee include:
  - ensuring the Company complies with its disclosure obligations
  - determining and authorising what information can or should be disclosed to the market
  - liaising with the Board where necessary

B. Corporate governance (continued)

- the Company Secretary is responsible for all communications with the ASX. Such continuous disclosure matters are advised to the ASX by the required time, and all senior executives must follow a 'Continuous Disclosure Discovery' process, which involves monitoring all areas of the Group's internal and external environment
- all announcements made to the market, and related information including information provided to analysts or the media during briefings, are placed on the Company's website after they are released to the ASX
- the full text of notices of meetings and associated explanatory material are placed on the Company's website.

All shareholders can elect to receive a copy of the Group's annual report. In addition the Company seeks to provide opportunities for shareholders to participate through electronic means. All Company announcements, media briefings, details of Company meetings and press releases are available on the Company's website. All of the above information is made available on the Company's website within one day of public release, and is emailed to all shareholders who lodge their email contact details with the Company. Information on lodging email addresses with the Company is available on the Company's website.

C. Review of operations

Financial Overview

	2011	2010	Change
NPAT	$67.6m	$70.4m	Down 4%
EBITDA	$189.4m	$167.0m	Up 13%
EBITDA margin	16.5%	16.6%	
Sales revenue	$1147.5m	$1003.7m	Up 14%
Operating cash flow	$32.4m	$147.4m	Down 78%
Earnings per share	47.6 cents	54.1 cents	Down 6.5 cents
Dividends per share	39.5 cents	34.0 cents	Up 16 %

A review of the operations of the Bradken Group during the year and the results of those operations is attached in the ASX Release.

Dividends

Dividends paid to members during the financial year were as follows:

	2011 $'000	2010 $'000
Final dividend for the year ended 30 June 2010 of 21.0 cents (2009: 13.0 cents) per fully paid share paid on 13 September 2010 (2009: 7 September 2009)	**29,138**	16,499
Interim dividend for the year ended 30 June 2011 of 18.5 cents (2010: 13.0 cents) per fully paid share paid 21 March 2011 (2010: 15 March 2010)	**25,833**	16,872
	54,971	33,371

In addition to the above dividends, since the end of the financial year the directors have declared the payment of a fully franked final dividend of $33,988,000 (21.0 cents per fully paid ordinary share) to be paid on 19 September 2011 out of retained profits at 30 June 2011.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were the:

	2011 $'000
(a) increase in contributed equity of $186,405,000 (from $302,838,000 to $489,243,000) as a result of:	
■ Dividend reinvestment plan issues 586,645 shares @ $7.46 each	4,377
■ Shares pursuant to an underwritten dividend reinvestment plan issue 1,839,309 shares @ $8.19 each	15,072
■ Dividend reinvestment plan issues 1,346,906 shares @ $7.99 each	10,761
■ Equity raisings in the period	153,883
■ Exercise of rights - transfer from reserve	2,388
■ Almac acquision costs adjustment	(76)
	186,405

Matters subsequent to the end of the financial year

Bradken acquired Australian and Overseas Alloys Pty Ltd based in Wollongong NSW for a total purchase price of $20m on 7 July 2011. Bradken finalised the acquisition of Norcast based in Canada from Castle Harlan on 12 July 2011 for a total cost of $202m AUD. Both of these acquisition were funded from existing cash and debt facilities.

Other than that noted above there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Likely developments and expected results of operations

Further disclosure on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

D. Remuneration report

The remuneration report is set out under the following main headings:

(a) Principles used to determine the nature and amount of remuneration
(b) Details of remuneration
(c) Service agreements
(d) Share-based compensation
(e) Additional information

The information provided under headings (a) to (d) includes the remuneration disclosures that are required under the Accounting Standard AASB 124 *Related Party Disclosures* . These disclosures have been transferred from the financial report and have been audited. The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001* .

(a) *Principles used to determine the nature and amount of remuneration*

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

External consultants AON Hewitt were contracted on 2 February 2011 to provide Executive Remuneration Benchmarking advice to the HR Committee.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an “at risk” bonus provided in the form of cash, while the long-term incentive (LTI) is provided as rights over ordinary shares of Bradken Limited under the rules of the Performance Rights Plan (PRP).

No key management personal has entered into any arrangement to limit the exposure or risk related to their remuneration.

Non executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board also uses the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market.

(i) Directors' fees

The current base remuneration was last reviewed with effect from 1 October 2010. Total aggregate remuneration for all non-executive directors, last voted upon by shareholders in October 2007, is not to exceed $800,000 per annum and actual amounts payable to individual directors are determined after considering advice from external advisors and with reference to fees paid to other non-executive directors of comparable companies.

Directors’ base fees are presently $125,000 (2010: $120,000) per annum. The Chairman' fee is currently $270,000 (2010: $240,000) per annum. Non-executive directors do not receive performance related remuneration. Directors’ fees cover all main board activities and membership of any board committee.

D. Remuneration report (continued)

(a) *Principles used to determine the nature and amount of remuneration (continued)*

(ii) Non-Executive Director Share Acquisition Plan

Non-executive directors may elect to have a percentage of their annual fixed directors' fees provided in shares under the Non-Executive Director Share Acquisition Plan (NED plan). Participation in the plan is voluntary.

Executive pay

The executive pay and reward framework has three components:

- base pay and benefits including superannuation
- short-term performance incentives
- long-term incentives through participation in the Performance Rights Plan.

The combination of these comprises the executive's total remuneration.

(i) Base pay and benefits

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion and includes contributions to employee superannuation funds.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

(ii) Short-term incentives

Each year the Board sets the job goals for the Managing Director. The senior executives job goals are set and managed by the Managing Director. The job goals are focused on the growth of the business and generally include measures relating to the Group, the relevant business unit, and the individual, and include financial, people, customer, strategy and risk measures. The measures are chosen to directly align the individual's reward to the goals of the Group and to its strategy and performance.

The financial performance objectives relate to “Net profit after tax” and "EBITDA" compared to previous years results. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, customer satisfaction and staff development.

At the end of the financial year an assessment is made of the actual performance of the Group, the relevant business unit and the individual targets set at the beginning of the financial year. A percentage of bonus is awarded depending on performance. No bonus is awarded where performance falls below the minimum growth target set for the financial year. The Managing Director and Human Resources Committee can exercise discretion when awarding bonuses.

The Human Resource Committee recommends the bonus incentive to be paid to the Managing Director for approval by the Board. For other senior executives the Managing Director recommends the bonus incentive to be paid, and seeks approval from the Human Resource Committee.

(iii) Long-term incentives - Performance Rights Plan

The Group's long-term incentive, the Performance Rights Plan, focuses on rewarding for long term growth and the retention of key people. Information on the Performance Rights Plan is set out on page 16.

(b) *Details of remuneration*

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Bradken Limited and the Bradken Limited Group are set out in the following tables.

The key management personnel of Bradken Limited and the Group are the directors of Bradken Limited (see page 2), the Chief Financial Officer and the General Managers and Chief Operating Officer of the Bradken business units who report directly to the Managing Director. The executives are:

- Andrew Allen - *General Manager Rail*
- Tom Armstrong - *Chief Operating Officer Engineered Products*
- Bruce Arnott - *CFO and Company Secretary*
- Enda Sheridan - Executive *General Manager Mining and Industrial Products*

In addition, the following person must be disclosed under the *Corporations Act 2001* as he is among the 5 highest remunerated Group executives.

- Brad Ward - *President Resources*

The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed Short-term incentives above. The Performance Rights (long term incentives) are not granted unless the conditions set out in Note 35 are satisfied. All other elements of remuneration are not directly related to performance.

D. Remuneration report (continued)

(b) *Details of remuneration (continued)*

Key management personnel and other executives of the Group

2011

	Short-term employee benefits			Post-employment benefits		Share-based payment	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	* Shares / Rights $	Total $
Non-executive directors							
Nick Greiner - *Chairman*	262,500	-	-	-	-	-	262,500
Phil Arnall	123,750	-	-	-	-	-	123,750
Greg Laurie	113,532	-	-	10,218	-	-	123,750
Vince O'Rourke	93,750	-	-	30,000	-	-	123,750
Peter Richards	113,532	-	-	10,218	-	-	123,750
Sub-total non-executive directors	707,064	-	-	50,436	-	-	757,500
Executive directors							
Brian Hodges	1,137,264	819,000	6,343	50,391	-	427,463	2,440,461
Other key management							
Andrew Allen	380,716	83,152	2,723	13,419	-	91,815	571,825
Tom Armstrong	372,232	345,444	-	18,397	-	118,146	854,219
Bruce Arnott	524,262	298,612	4,519	38,637	-	131,747	997,777
Enda Sheridan	534,505	258,996	1,838	26,826	-	190,171	1,012,336
Total key management compensation (group)	3,656,043	1,805,204	15,423	198,106	-	959,342	6,634,118
Other group executives							
Brad Ward	372,136	173,407	-	9,910	-	96,726	652,179

2010

	Short-term employee benefits			Post-employment benefits		Share-based payment	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Shares / Rights $	Total $
Non-executive directors							
Nick Greiner - *Chairman*	240,000	-	-	-	-	-	240,000
Phil Arnall	120,000	-	-	-	-	-	120,000
Greg Laurie	108,605	-	-	11,395	-	-	120,000
Vince O'Rourke	95,023	-	-	24,977	-	-	120,000
Peter Richards	109,155	-	-	10,845	-	-	120,000
Sub-total non-executive directors	672,783	-	-	47,217	-	-	720,000
Executive directors							
Brian Hodges	1,136,167	-	5,618	58,215	-	392,648	1,592,648
Other key management							
Andrew Allen	360,605	274,793	2,443	25,077	-	77,618	740,536
Tom Armstrong	388,238	-	-	15,092	-	62,143	465,473
Bruce Arnott	498,031	109,929	4,055	44,823	-	108,851	765,689
Greg Dalziel	191,699	-	-	10,428	-	42,862	244,989
Enda Sheridan	510,226	-	1,634	25,368	-	174,795	712,023
Total key management compensation (group)	3,757,749	384,722	13,750	226,220	-	858,917	5,241,358
Other group executives							
Brad Ward	406,980	-	-	5,214	-	92,902	505,096

D. Remuneration report (continued)

(c) *Service agreements*

Remuneration and other terms of employment for the Managing Director, key management personnel and other executives required to be disclosed under the *Corporations Act 2001* are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including, but not limited to, motor vehicles and participation, when eligible, in the Bradken Performance Rights Plan. Other major provisions of the agreements relating to remuneration are set out below.

Brian Hodges, *Managing Director*

- Contract of employment with Bradken Resources Pty Ltd dated 2nd July 2004 with no prescribed duration.
- The contract can be terminated either by either party providing six months written notice, or immediately in the case of gross misconduct. If Bradken Resources Pty Ltd terminates employment, other than for misconduct, then a severance payment will be made in accordance with Bradken's redundancy policy in place immediately before termination.

Andrew Allen, *General Manager Rail*

- Contract of employment with Bradken Resources Pty Ltd dated 17 June 2009 with no prescribed duration.
- The contract can be terminated on three months notice by either party, or immediately in the case of gross misconduct.

Bruce Arnott, *Chief Financial Officer and Company Secretary*

- Contract of employment with Bradken Resources Pty Ltd dated 3rd July 2006 with no prescribed duration.
- The contract can be terminated by either party providing three months written notice, or immediately in the case of gross misconduct.

Tom Armstrong, *Chief Operating Officer Engineered Products*

- Contract of employment with Bradken Holdings USA Inc. dated 25th October 2006 for a three year term renewable for successive twelve monthly periods unless either party gives ninety days written notice of their intent not to extend the term
- The contract can be terminated by the Company at any time for any reason without prior notice, the executive can terminate on thirty days notice for any reason.

Enda Sheridan, Executive *General Manager Mining and Industrial Products*

- Contract of employment with Bradken Resources Pty Ltd dated 17th June 2009 with no prescribed duration.
- The contract can be terminated on three months notice by either party, or immediately in the case of gross misconduct.

Brad Ward, *President Resources*

- Contract of employment with Bradken Resources Pty Ltd dated 3rd September 2008 with no prescribed duration.
- The contract can be terminated on three months notice by either party, or immediately in the case of gross misconduct.

D. Remuneration report (continued)

(d) ***Share-based compensation***

Non-Executive Director Share Acquisition Plan

Non-executive directors may elect to have a proportion of their quarterly directors' fees provided as shares under the NED Plan. Participation in the plan is voluntary.

Non-executive directors are not able to sell or otherwise dispose of the shares until the earliest of 10 years after acquisition or when the non-executive director ceases to be a director of the Company (except in very limited circumstances). During this period the shares are subject to a holding lock.

No shares were issued under the plan in the financial period.

Rights

The Performance Rights Plan (PRP) is the Company's long-term incentive (LTI) scheme for selected key executives. The Managing Director recommends the list of executives who are entitled to participate in this scheme and seeks approval of the list from the Human Resources Committee which is then ratified by the Board. Under the PRP, eligible executives may be granted Performance Rights (each being a right to acquire a share, subject to the satisfaction of exercise conditions) on terms and conditions determined by the Board and as documented in the PRP Plan rules and Trust Deed. If the exercise conditions are satisfied, the Performance Rights may be exercised and the shares issued and delivered to the executive. The Board may impose restrictions on the disposal of the shares and implement procedures to enforce the restrictions.

The rules of the PRP provide that the Board may determine a price that is payable to exercise a Performance Right, or that no amount is payable by the executive upon exercise of the Right.

If any additional persons become entitled to participate in the PRP and their participation requires approval under Chapter 10 of the Listing Rules, they will not participate in the PRP until shareholder approval is received pursuant to Listing Rule 10.14.

Mr Brian Hodges, being the only Executive Director of the Company, is the only Director entitled to participate in the PRP. If any other Director is to participate in the PRP, the Company will seek shareholder approval required by the Listing Rules.

The performance conditions are based on the relative total shareholder return ("TSR") of the Company measured against other companies in the ASX Small Industrials Index during the performance period. TSR measures the total return on investment of a share taking into account capital appreciation, capital return and dividend income.

The TSR performance conditions in relation to the grants issued are:

Target	Percentage of Rights available in given year to vest
The Company's TSR does not meet performance of the median Company in ASX Small Cap	0
The Company's TSR equals or exceeds performance of the median Company in ASX Small Cap	50
The Company's TSR ranked in third quartile of companies in ASX Small Cap	Pro rata between 50 and 100
The Company's TSR ranked in fourth quartile of companies in ASX Small Cap	100

In assessing whether the performance hurdles have been met, the Human Resource Committee receives independent data from an investment bank which provides both the Company's TSR from previous financial years and that of the ASX Small Industrials Index. The Company's performance against the hurdle is then determined with each Company in the ASX Small Industrials Index and Bradken being ranked in order of TSR in results from previous financial years. The Company's percentile ranking is determined by aggregating the weighting within the ASX Small Industrials Index (based on market capitalisation) of each company ranked below Bradken. The method of assessment was chosen as it provides the Committee with an objective means of measuring the Company's performance against its peer group. Once vested the performance rights remain exercisable for a period of ten years.

D. Remuneration report (continued)

(d) *Share-based compensation (continued)*

Dividends, changes in share price, and return of capital are included in the TSR calculation which is the only performance criteria assessed for the PRP scheme.

The terms and conditions of each grant of Rights affecting remuneration in the previous, this or future reporting periods are as follows:

Grant Date	Expiry Date	Exercise price	Fair value per Right	Performance Period	Test Date (date vested and exercisable)
31 October 2007 *	10 years from Test Date	$0.00	$8.45	1 Jul 07 to 30 Jun 10	Result announcement y/e 10
17 October 2008 *	10 years from Test Date	$0.00	$4.11	1 Jul 08 to 30 Jun 10	Result announcement y/e 10
17 October 2008 *	10 years from Test Date	$0.00	$4.82	1 Jul 08 to 30 Jun 11	Result announcement y/e 11
29 October 2009 *	10 years from Test Date	$0.00	$2.50	1 Jul 09 to 30 Jun 10	Result announcement y/e 10
29 October 2009 *	10 years from Test Date	$0.00	$3.71	1 Jul 09 to 30 Jun 11	Result announcement y/e 11
29 October 2009 *	10 years from Test Date	$0.00	$4.41	1 Jul 09 to 30 Jun 12	Result announcement y/e 12
5 November 2010 *	10 years from Test Date	$0.00	$5.13	1 Jul 10 to 30 Jun 11	Result announcement y/e 11
5 November 2010 *	10 years from Test Date	$0.00	$5.13	1 Jul 10 to 30 Jun 12	Result announcement y/e 12
5 November 2010 *	10 years from Test Date	$0.00	$6.12	1 Jul 10 to 30 Jun 13	Result announcement y/e 13

** Changes to the Performance Rights Plan*

New entrants to the scheme are provided with a transition to the 3 year plan.

Rights granted under the PRP carry no dividend or voting rights.

Details of Rights over ordinary shares in the Company provided as remuneration to each director of Bradken Limited and each of the key management personnel are set out below. When exercisable, each Right is convertible into one ordinary share of Bradken Limited. Further information on the Rights is set out in note 35 to the financial statements.

Number of Rights granted and vested and Shares provided during the year on exercise of Performance Rights

Details of Rights granted and vested and ordinary shares in the Company provided as a result of the exercise of Performance Rights to the Managing Director of Bradken Limited and each of the key management personnel and other executives of the Group required to be disclosed under the *Corporations Act 2001* are set out below.

Name	**Number of Rights granted during the year**	**Number of Rights vested during the year**	**Number of ordinary shares issued on exercise of Rights during the year**
Directors of Bradken Limited			
Brian Hodges	**79,890**	**37,310**	**37,310**
Other key management personnel of the Group			
Andrew Allen	**20,278**	**7,909**	**7,909**
Tom Armstrong	**25,793**	**7,653**	**7,653**
Bruce Arnott	**29,129**	**10,633**	**10,633**
Enda Sheridan	**36,331**	**17,100**	**17,100**
Other Group executives			
Brad Ward	**18,087**	**9,628**	**9,628**

No amounts were payable on the exercise of Rights during the period.

D. Remuneration report (continued)

(d) *Share-based compensation (continued)*

The assessed fair value at grant date of Rights granted to the individuals is allocated equally over the financial periods in which the Rights may vest, and the amount is included in the remuneration tables above. Fair values at grant date are determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the Right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the Right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the Right.

The following factors and assumptions have been used in determining the fair value of Rights for the issues granted:

Grant Date	Expiry Date	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
31 October 2007	30/06/2010	$0.00	$14.68	90%	6.18%	0.00%
17 October 2008	30/06/2010	$0.00	$6.30	139.5%	5.19%	0.00%
17 October 2008	30/06/2011	$0.00	$6.30	139.5%	5.19%	0.00%
29 October 2009	30/06/2010	$0.00	$6.05	129.0%	5.52%	0.00%
29 October 2009	30/06/2011	$0.00	$6.05	129.0%	5.52%	0.00%
29 October 2009	30/06/2012	$0.00	$6.05	129.0%	5.52%	0.00%
5 November 2010	30/06/2012	$0.00	$8.60	125.0%	5.25%	0.00%
5 November 2010	30/06/2012	$0.00	$8.60	125.0%	5.25%	0.00%
5 November 2010	30/06/2013	$0.00	$8.60	125.0%	5.25%	0.00%

(e) *Additional information*

Principles used to determine the nature and amount of remuneration: relationship between remuneration and Company performance

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year.

Details of cash remuneration: cash bonuses and Rights

For each cash bonus and grant of Rights included in the tables on page 14, pages 17 to 18 and page 20, the percentage of the available bonus or Right that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the performance criteria is set out below. The Rights vest over a period up to three years, provided the vesting conditions are met (see page 16). No part of cash bonuses forfeited are payable in future years.

D. Remuneration report (continued)

(e) *Additional information (continued)*

	Cash bonus	Rights						
Name	**Paid / Forfeited %**	**Financial year granted**	**Vested in prior years % ***	**Vested in current year % ***	**Forfeited (A) %**	**Financial years in which Rights may vest**	**Minimum total value of grant yet to vest (B) $**	**Maximum total value of grant yet to vest (C) $**
Andrew Allen	52 / 48	2011	-	-	-	30/06/2014	-	161,413
		2010	-	-	-	30/06/2013	-	170,511
		2009	-	-	-	30/06/2012	-	93,928
		2008	25	61	14	30/06/2009	-	-
Tom Armstrong	250 / Nil	2011	-	-	-	30/06/2013	-	51,326
		2010	-	-	-	30/06/2014	-	153,986
		2009	-	20	-	30/06/2011	-	243,672
Bruce Arnott	130 / Nil	2011	-	-	-	30/06/2014	-	231,867
		2010	-	-	-	30/06/2013	-	240,265
		2009	-	-	-	30/06/2012	-	138,496
		2008	25	61	14	30/06/2009	-	-
Brian Hodges	130 / Nil	2011	-	-	-	30/06/2014	-	635,924
		2010	-	-	-	30/06/2013	-	878,633
		2009	-	-	-	30/06/2012	-	506,471
		2008	25	61	14	30/06/2009	-	-
Enda Sheridan	113 / Nil	2011	-	-	-	30/06/2014	-	289,195
		2010	-	-	-	30/06/2013	-	392,102
		2009	-	-	-	30/06/2012	-	216,233
		2008	25	61	14	30/06/2009	-	-
Brad Ward	151 / Nil	2011	-	-	-	30/06/2014	-	143,973
		2010	-	-	-	30/06/2013	-	202,518
		2009	-	-	-	30/06/2012	-	111,122
		2008	25	61	14	30/06/2009	-	-

A= The % of rights that failed to vest in the period as the performance criteria were not met.

B= The minimum value of Rights yet to vest is nil as the performance criteria may not be met and consequently the Right may not vest.

C= The maximum value of rights yet to vest is not determinable as it depends on the market price of shares of Bradken Limited on the Australian Stock Exchange at the date the right is exercised. The maximum values presented above are based on the closing share price at 30 June 2011 of $7.96.

D. Remuneration report (continued)

(e) *Additional information (continued)*

Details of cash remuneration: cash bonuses and Rights (continued)

Share based compensation: Rights
Further details relating to rights are set out below.

Name	A Remuneration consisting of Rights	B Value at grant date $	C Value at exercise date $	D Value at lapse date $
Andrew Allen	16.1%	124,101	64,854	13,531
Tom Armstrong	13.8%	151,469	62,755	-
Bruce Arnott	13.2%	178,269	87,191	18,190
Brian Hodges	17.5%	488,927	305,942	63,808
Enda Sheridan	18.8%	222,346	140,220	29,244
Brad Ward	14.8%	110,692	78,950	16,468

A= The percentage of the value of remuneration consisting of Rights, based on the value at grant date set out in column B.
B= The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of Rights granted during the year as part of remuneration.
C= The value at exercise date of Rights that were granted as part of remuneration and were exercised during the year.
D= The value at lapse date of Rights that were granted as part of remuneration and that lapsed during the year.

Shares under Performance Rights
Unissued shares of Bradken Limited under Performance Right at the date of this report are as follows:

Date Rights granted	Expiry date	Exercise price	Number of shares under right
18 November 2005	Ten years from Test Date	Nil	10,344
30 October 2006	Ten years from Test Date	Nil	13,008
30 October 2006	Ten years from Test Date	Nil	14,993
31 October 2007	Ten years from Test Date	Nil	5,715
31 October 2007	Ten years from Test Date	Nil	2,481
31 October 2007	Ten years from Test Date	Nil	7,443
17 October 2008	Ten years from Test Date	Nil	6,492
17 October 2008	Ten years from Test Date	Nil	3,910
17 October 2008	Ten years from Test Date	Nil	321,001
29 October 2009	Ten years from Test Date	Nil	34,697
29 October 2009	Ten years from Test Date	Nil	660,817
5 November 2010	Ten years from Test Date	Nil	34,537
5 November 2010	Ten years from Test Date	Nil	26,832
5 November 2010	Ten years from Test Date	Nil	550,078

All Rights expire on the earlier of their expiry date, their exercise, their failure to meet exercise conditions or termination of the employee’s employment. In addition, the ability to exercise the Rights is conditional on the Group achieving certain performance hurdles related to relative total shareholder return to the ASX Small Cap Industrial index.
Further details are included in the Remuneration Report above.

Shares issued on exercise of Rights
The following ordinary shares of Bradken Limited were issued during the year ended 30 June 2011 on exercise of Rights granted under the Performance Rights Plan. No further shares have been issued since that date.

Date Rights granted	Exercise price of right	Number of shares issued
30 October 2006	0.00	43,788
31 October 2007	0.00	178,774
17 October 2008	0.00	27,892
29 October 2009	0.00	63,416

E. Other information

Environmental regulation

The Group's operations are subject to significant environmental regulation under both Commonwealth and State legislation governing, amongst other things, noise, air emissions, the use, handling, and disposal of hazardous substances and waste. The Group has devoted and will continue to devote resources to environmental compliance and management in each of the jurisdictions in which it operates.

An environmental management system is in place which complies with the international standard ISO14001 in major sites in Australia the UK and New Zealand, while the US and China operate under local legal compliance requirements equivalent to ISO14001. It is Group policy to be environmentally proactive and to adopt practices that minimise adverse environmental impacts and to communicate and provide appropriate feedback on the Group's environmental performance. In accordance with the Group's environmental policy, procedures and goals have been established aimed at ensuring:

- all manufacturing and engineering sites have developed, implemented, and maintain environmental management systems meeting the requirements of ISO14001
- the environmental management systems are integrated with the existing business systems
- zero notifiable incidents and zero justified neighbourhood complaints
- continuing reduction of industrial waste disposal costs by continual improvement of working practices, such as cleaner production and improved recycling

Based upon the results of inquiries made, the Board is not aware of any significant breaches during the period covered by this report nor does it consider the Group is subject to any presently known material environmental liabilities. Under agreements with local authorities capital expenditure is required at some Australian sites to reduce dust and odour emissions.

Greenhouse gas and energy data reporting requirements

In Australia, the energy related requirements have corporate thresholds and Bradken group companies are subject to the reporting requirements of the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007 and site thresholds for the National Pollutant Inventory NEPM.

The Energy Efficiency Opportunities Act 2006 requires the group to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action the group intends to take as a result. The group continues to meet its obligations under this Act.

The National Greenhouse and Energy Reporting Act 2007 requires the group to report its annual greenhouse gas emissions and energy use. The group has implemented systems and processes for the collection and calculation of the data required and submitted its 2009/10 report to the Greenhouse and Energy Data Officer on 27th October 2010.

Internationally energy related reporting requirements have facility thresholds. In the US, the Atchison facility will be reporting on energy as its emissions exceed the US reporting threshold. The USEPA has extended the deadline for reporting 2010 data to 30th Sept 2011. In the UK, the Bradken facilities complied with their respective Climate Change Agreements which finished in September 2010. There are no current energy reporting requirements applicable in Canada, China or New Zealand.

Certain Bradken facilities in Australia (NPI), Canada (NPRI) and USA (TRI) report energy use in the National Pollutant Inventory(NPI or NPRI) Reports or Toxic Release Inventory Reports (TRI) along with the associated emissions.

Insurance of officers

During the year, the Company paid a premium to insure the directors and secretaries of the Company and its Australian-based controlled entities, the general managers of each of the businesses, all executive officers of the Group and of any related body corporate against a liability incurred by such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify any officer of the Group or of any related body corporate against a liability incurred by any such officer.

Proceedings on behalf of the Company

No person has applied to the court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of these proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or Group are important.

Details of the amounts paid to auditors for audit and non-audit services provided during the year are set out on the following page.

E. Other information (continued)

The Board of directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2011	2010
	$	$
Assurance services		
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under *Corporations Act 2001*	**423,538**	383,275
Related practices of PricewaterhouseCoopers Australian firm	**177,885**	200,703
Non-PricewaterhouseCoopers audit firm (Deloittes NZ)	**16,103**	22,373
Non-PricewaterhouseCoopers audit firm (KPMG US)	**-**	24,144
Non-PricewaterhouseCoopers audit firm (Grant Thornton US)	**290,431**	332,497
Total remuneration for audit services	**907,957**	962,992
2. Other assurance services		
Related practices of PricewaterhouseCoopers Australian firm		
Accounting services	**41,778**	-
Non-PricewaterhouseCoopers audit firm (Fubang China)		
Capital verification services	**428**	-
Total remuneration for other assurance services	**42,206**	-
Total remuneration for assurance services	**950,163**	962,992
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services, including review of Company income tax returns	**215,675**	150,875
Related practices of PricewaterhouseCoopers Australian firm	**13,442**	29,881
Non-PricewaterhouseCoopers audit firm (Deloittes NZ)	**5,706**	6,085
Non-PricewaterhouseCoopers audit firm (KPMG US)	**349,502**	388,369
Non-PricewaterhouseCoopers audit firm (Ernst & Young China)	**12,156**	15,877
Non-PricewaterhouseCoopers audit firm (Tianrui China)	**382**	249
Non-PricewaterhouseCoopers audit firm (Zheng Da foe China)	**183**	-
Total remuneration for taxation services	**597,046**	591,336

E. Other information (continued)

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 24.

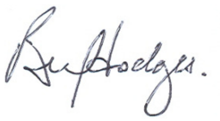
Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewatehouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001.*

This report is made in accordance with a resolution of the directors:



Brian Hodges
Managing Director

Sydney
8 August 2011

PricewaterhouseCoopers
ABN 52 780 433 757

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Auditors Independence Declaration

As lead auditor for the audit of Bradken Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Bradken Limited and the entities it controlled during the period.

John Campion

J Campion
Partner
PricewaterhouseCoopers

Newcastle
8 August 2011

Bradken Limited

ABN 33 108 693 009

Annual financial report - 30 June 2011

Contents

This financial report covers the consolidated entity consisting of Bradken Limited and its subsidiaries. The financial report is presented in the Australian currency.

Bradken Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

2 Maud Street
Mayfield West NSW 2304

A description of the nature of the consolidated entity's principal activities and a review of operations is included on page 2 and pages 10 to 11 of the directors' report, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 8 August 2011. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.bradken.com.au.

	Notes	2011 $'000	2010 $'000
Revenue from continuing operations	5	**1,153,848**	1,008,433
Cost of sales		**(879,266)**	(774,662)
Gross profit		**274,582**	233,771
Other income	5	**-**	1,158
Selling and technical expenses		**(50,573)**	(40,896)
Administration expenses		**(88,154)**	(67,027)
Finance costs	5	**(37,549)**	(30,484)
Profit before income tax		**98,306**	96,522
Income tax expense	6	**(30,694)**	(25,752)
Profit for the year		**67,612**	70,770
Profit is attributable to:			
Owners of Bradken Limited		**67,561**	70,441
Non-controlling interests		**51**	329
		67,612	70,770

		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per ordinary share: (cents per share)	34	**47.6**	54.1
Diluted earnings per ordinary share: (cents per share)	34	**47.1**	53.6

The above consolidated income statement should be read in conjunction with the accompanying notes.

	Notes	**2011 $'000**	2010 $'000
Profit for the year		**67,612**	70,770
Other comprehensive income			
Changes in the fair value of available-for-sale financial assets	22(a)	**19,875**	16,620
Changes in the fair value of cash flow hedges	22(a)	**43**	(622)
Exchange differences on translation of foreign operations	22(a)	**(36,154)**	(3,667)
Actuarial (losses) / gains on retirement benefit obligations	22(b)	**2,346**	(1,247)
Income tax relating to components of other comprehensive income	6(d)	**(5,975)**	(4,798)
Other comprehensive income for the year net of tax		**(19,865)**	6,286
Total comprehensive income for the year		**47,747**	77,056
Total comprehensive income for the year is attributable to:			
Owners of Bradken Limited		**47,696**	76,727
Non-controlling interests		**51**	329
		47,747	77,056

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Notes	2011 $'000	2010 $'000
Current assets			
Cash and cash equivalents	7	**152,476**	63,565
Receivables	8	**258,488**	142,348
Other receivables and other assets	9	**357**	-
Inventories	10	**177,547**	162,375
Derivative financial instruments	11	**-**	238
Total current assets		**588,868**	368,526
Non-current assets			
Receivables	8	**1,622**	1,485
Other receivables and other assets	9	**5,542**	-
Property, plant and equipment	12	**407,754**	384,982
Deferred tax assets	13	**11,864**	8,547
Intangible assets	14	**178,834**	173,351
Available for sale financial assets	15	**70,054**	46,938
Total non-current assets		**675,670**	615,303
Total assets		**1,264,538**	983,829
Current liabilities			
Payables	16	**127,394**	118,543
Borrowings	18	**15,031**	24,054
Current tax liabilities		**17,878**	10,137
Provisions	17	**45,865**	36,890
Derivative financial instruments	11	**7,337**	532
Total Current Liabilities		**213,505**	190,156
Non-current liabilities			
Payables	16	**6,970**	-
Borrowings	18	**363,547**	283,729
Deferred tax liabilities	20	**21,978**	25,736
Provisions	17	**7,475**	12,500
Total non-current liabilities		**399,970**	321,965
Total liabilities		**613,475**	512,121
Net assets		**651,063**	471,708
Equity			
Contributed equity	21	**489,243**	302,838
Reserves	22(a)	**(6,386)**	15,402
Retained earnings	22(b)	**168,206**	153,270
Capital and reserves attributable to owners of Bradken Limited		**651,063**	471,510
Non-controlling interests		**-**	198
Total equity		**651,063**	471,708

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

	Notes	Contributed Equity	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
		Attributable to owners of Bradken Limited					
		$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2009		**223,460**	**5,977**	**117,442**	**346,879**	**2,776**	**349,655**
Total comprehensive income for the year as reported in the 2010 financial statements		**-**	**7,533**	**69,194**	**76,727**	**329**	**77,056**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs	21	57,912	-	-	**57,912**	-	**57,912**
Dividends provided for or paid	22	21,466	-	(33,371)	**(11,905)**	(126)	**(12,031)**
Rounding adjustment		-	1	5	**6**	-	**6**
Transactions with non-controlling interests		-	(469)	-	**(469)**	(2,781)	**(3,250)**
Employee share rights - value of employee services	35	-	2,360	-	**2,360**	-	**2,360**
		79,378	1,892	(33,366)	47,904	(2,907)	44,997
Balance at 30 June 2010		**302,838**	**15,402**	**153,270**	**471,510**	**198**	**471,708**
Total comprehensive income for the year		-	(22,211)	69,907	47,696	51	47,747
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs and tax	21	153,807	-	-	**153,807**	-	**153,807**
Dividends provided for or paid	22	30,210	-	(54,971)	**(24,761)**	(75)	**(24,836)**
Transactions with non-controlling interests			(95)		**(95)**	(174)	**(269)**
Employee share rights - value of employee services	35	-	2,906	-	**2,906**	-	**2,906**
Employee share rights - transfer on exercise of options	35	2,388	(2,388)	-	**-**	-	**-**
		186,405	423	(54,971)	131,857	(249)	131,608
Balance at 30 June 2011		**489,243**	**(6,386)**	**168,206**	**651,063**	**-**	**651,063**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,153,431**	1,100,966
Payments to suppliers and employees (inclusive of goods and services tax)		**(1,059,739)**	(906,791)
Transaction costs relating to acquisition of subsidiary and acquisition of business		**(309)**	-
		93,383	194,175
Interest received		**684**	163
Interest paid		**(30,374)**	(26,288)
Income taxes paid		**(31,316)**	(20,621)
Net cash (outflow) inflow from operating activities	32	**32,377**	147,429
Cash flows from investing activities			
Payment for property, plant and equipment		**(59,766)**	(35,262)
Payment for non-controlling interest	30	**-**	(2,925)
Payment for purchase of subsidiary, net of cash acquired	29	**(36,378)**	(1,146)
Payment for businesses	29	**(65,144)**	-
Payment for available for sale financial assets	15	**(5,290)**	(17,895)
Proceeds from sale of property, plant and equipment		**94**	37
Payment for capitalised design costs		**(3,166)**	(34)
Net cash (outflow) inflow from investing activities		**(169,650)**	(57,225)
Cash flows from financing activities			
Proceeds from issue of shares		**173,286**	69,977
Transaction costs from issue of shares		**(2,852)**	(1,047)
Payment of finance lease liabilities		**(9,311)**	(10,445)
Repayment of borrowings		**(47,869)**	(103,425)
Proceeds from borrowings		**146,406**	41,797
Dividends paid to company's shareholders	23	**(39,833)**	(23,869)
Dividends paid to non-controlling interests in subsidiaries		**(125)**	(126)
Dividends received		**1,449**	691
Payments for shares bought back		**(2,388)**	-
Net cash (outflow) inflow from financing activities		**218,763**	(26,447)
Net increase (decrease) in cash and cash equivalents		**81,490**	63,757
Cash and cash equivalents at the beginning of the year		**63,367**	507
Effects of exchange rate changes on cash and cash equivalents		**(1,801)**	(897)
Cash and cash equivalents at the end of the year	7	**143,056**	63,367
Financing arrangements	18		
Non-cash financing and investing activities	33		

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Contents to the notes to the consolidated financial statements

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistency applied to all years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Bradken Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*

Compliance with IFRSs

The consolidated financial statements of the Bradken Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bradken Limited (''company'' or ''parent entity'') as at 30 June 2011 and the results of all subsidiaries for the year then ended. Bradken Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Bradken Limited.

1 Summary of significant accounting policies (continued)

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director.

(d) Foreign currency translation

(i) Functional currency and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Bradken Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investments are repaid, a proportionate share of such exchange differences is reclassified to profit and loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

1 Summary of significant accounting policies (continued)

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed the significant risks and rewards to the buyer.

(ii) Contract revenue

Contract revenue and expenses are recognised on an individual contract basis using the percentage of completion method when the stage of contract completion can be reliably determined, costs to date can be clearly identified, and total contract revenue and costs to complete can be reliably estimated.

The stage of completion is measured by reference to an assessment of total labour hours and other costs incurred to date as a percentage of costs for each contract.

Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that the cost will be recovered, revenue is recognised to the extent of costs incurred. Where it is probable that a loss will arise on a contract, the excess of total costs over revenue is recognised immediately as an expense.

(iii) Interest income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

(iv) Sale of non-current assets

The gain or loss on disposal of non-current assets is included as other income or expense at the date control passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(v) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(vi) Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(m).

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

1 Summary of significant accounting policies (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Bradken Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Investment allowances

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 12). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 27). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Lease income from finance leases where the group is a lessor is recognised in income on a discounted basis over the lease term (note 9). The respective lease reveivable is included in the balance sheet.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

1 Summary of significant accounting policies (continued)

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Receivables

Trade receivables are recognised initially at fair value and subsequently, less provision for doubtful debts. Trade receivables are normally due for settlement no more than 30 days from the date of recognition. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the value of estimated future cash flows. The amount of the provision is recognised in the income statement.

(l) Inventories

(i) Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate portion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on either standard or weighted average basis. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale such as expenses of marketing, selling and distribution to customers.

(ii) Construction and service contract work in progress

Construction and service contract work in progress is carried at cost plus profit recognised to date based on the value of work completed, less progress billings and less provision for foreseeable losses. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under other liabilities.

Cost includes variable and fixed costs directly related to specific contracts, those costs related to contract activity in general which can be allocated to specific contracts on a reasonable basis and other costs specifically chargeable under the contract. Costs expected to be incurred under penalty clauses and rectification provisions are also included.

(iii) Stock Obsolescence

All inventory items are reviewed on a regular basis during the year and a provision raised for products which have not been sold for one year unless the review indicates that a sale is likely.

(m) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

1 Summary of significant accounting policies (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 8).

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

Fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(n) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedge).

1 Summary of significant accounting policies (continued)

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 11. Movements in the hedging reserve in shareholders' equity are shown in note 22.

The full fair value of a hedging derivative is classified as a non current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within other income or other expense together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to the interest rate risk. The gain or loss relating to the ineffective portion is recognised in the income statement within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within "finance costs". The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within "sales". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or a non-financial liability), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

1 Summary of significant accounting policies (continued)

(o) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. Assets are depreciated or amortised from the date of acquisition, or in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Buildings	35 to 66 years
Plant and equipment	1 to 20 years
Patterns	1 to 40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(p) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 1(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4).

(ii) Patents, trademarks and licences

Patents are carried at fairvalue at acquisition and amortised on a straight line basis over the life of the patent. Trademarks are carried at their fair value at acquisition less impairment losses and amortised over 5 years with amortisation calculated on a straight line basis. The ESCO licence has been fully amortised at 30 June 2011 and has not been renewed.

(iii) Customer relationships

Customer relationships acquired as part of a business acquisition are recognised separately from goodwill. The customer relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on their estimated useful lives, which currently vary from 10 to 20 years.

(iv) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 10 years.

(q) Payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

1 Summary of significant accounting policies (continued)

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(s) Borrowing costs

Borrowing costs are expensed as incurred. Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs in connection with arrangement of borrowings, foreign exchange differences net of hedged amounts on borrowings, including trade creditors and lease finance charges.

(t) Provisions

A provision is recognised in the accounts when there is a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(i) Warranties

Products are warranted against faulty workmanship and in some cases these are specifically extended to periods up to seven years or hours used depending on the type of product and contract in place. Rectification claims are settled in cash or by repair of the item, at the discretion of the Group. Provision for warranty claims are made for claims received and claims expected to be received in relation to sales made prior to reporting date adjusted for specific information arising from internal quality assurance processes.

(u) Employee Benefits

(i) Wages, salaries, annual leave, sick leave, rostered days off and non-monetary benefits

Liabilities for annual leave, accumulating sick leave and rostered days off, including non monetary benefits, expected to be settled within 12 months of the reporting date are recognised in current provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Liabilities for unpaid wages and salaries up to the reporting date are recognised in current payables.

(ii) Long service leave

The provision for long service leave represents the present value of the expected future cash outflows to be made resulting from employees' services provided to reporting date.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in current provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iv) Employee share and rights plans

Share based compensation benefits are provided to employees and directors via the Performance Rights Plan ('PRP') and the Non-Executive Director Share Acquisition Plan ('NEDSAP') respectively.

The fair value of Rights granted under the PRP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the Rights. The fair value of Rights granted are measured using the Black & Scholes Pricing Model, taking into account the terms and conditions attached to the Rights. The amount recognised as an expense is adjusted to reflect the actual number of Rights that vest except where forfeiture is due to market related conditions.

The fair value of shares issued under the NEDSAP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date.

1 Summary of significant accounting policies (continued)

(v) Retirement benefit obligations

All employees of the Group are entitled to benefit from various superannuation or pension plans on retirement, disability or death. The Group operates one defined benefit retirement plan in the United States that covers hourly employees hired before May 10, 1993 in one of our US subsidiaries. Benefits for the defined benefit plan are determined on years of credited service. The Group also operates a number of defined contribution plans which receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the funds assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on future payments which may arise from membership of the fund to the reporting date, calculated annually by independent actuaries. Consideration is given to the, experience of employee departures and periods of service.

(vi) Healthcare reserves

The Group's U.S. operations primarily self-insure employee healthcare expenses. Reserves are based on historical claims experience.

(v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or rights are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or rights for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(y) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

(z) Rounding of amounts

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

1 Summary of significant accounting policies (continued)

(aa) Amended accounting standards and UIG interpretations

Certain amended accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's and the parent entity's assessment of the impact of these amended standards and interpretations is set out below.

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. There will be no impact on the group's accounting for its available-for-sale financial assets as the Group's investments are not held for trading.

Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. There will be no impact on the group's accounting for available-for-sale debt investments, as the new requirements only affect the accounting for available-for-sale debt investments that are designated at fair value through profit or loss and the group does not have any such investments. There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The group has not yet decided when to adopt AASB 9.

Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

The following new standards and amendments to standards are not expected to have a material impact on the Group's financial statements.

Standard	Title	Operative date
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 January 2011
AASB 1053	Application of Tiers of Australian Accounting Standards	1 July 2013
AASB 2010-2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 July 2013
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	1 July 2011
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	1 January 2012

1 Summary of significant accounting policies (continued)

(ab) Parent entity financial information

The financial information for the parent entity, Bradken Limited, disclosed in note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Bradken Limited.

(ii) Tax consolidation legislation

Bradken Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Bradken Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Bradken Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The amounts receivable/payable are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(iii) Financial guarantees

The parent entity is a guarantor under the Bradken Group - Common Terms Deed Poll and unconditionally and irrevocably guarantees payments due in connection with any financing facilities owed by any Group company.

2 Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used as hedging instruments, ie not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which is it exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risk and ageing analysis for credit risk.

Risk management is carried out centrally by the CFO and finance function under policies approved by the Board of Directors.

(a) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims at maintaining flexibility in funding by keeping committed credit lines available.

Management monitors forecasts of the Group's liquidity on the basis of expected cash flow. See note 18(e) for details of available facilities.

The tables below analyse the Group's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. There is no liquidity risk at the Parent entity level.

Group - 2011	Less than 1 year $'000	Between 1 and 5 year(s) $'000	Over 5 years $'000
Non-derivatives			
Payables	127,394	-	-
Borrowings (excluding finance leases and hire purchases)	32,290	423,158	-
Finance leases and hire purchase liabilities	4,043	6,326	20
Derivatives			
Net settled interest rate swaps and caps	7,337	-	-

Group - 2010	Less than 1 year $'000	Between 1 and 5 year(s) $'000	Over 5 years $'000
Non-derivatives			
Payables	118,543	-	-
Borrowings (excluding finance leases and hire purchases)	44,176	329,548	-
Finance leases and hire purchase liabilities	5,646	7,657	251
Derivatives			
Net settled interest rate swaps and caps	532	-	-

The Group enters into forward exchange contracts to hedge foreign currency denominated receivables and also to manage foreign currency denominated inventory and capital items.

Refer to note 11(a)(ii) for the maturity profiles of the Group's existing foreign exchange hedge contracts.

Refer to note 8(f) for receivables denominated in foreign currencies.

(c) Market risk

(i) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets other than a short term cash balance following the institutional equity raising in May 2011, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest-rate-risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate-risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate-risk. Group policy is to fix the rates for between 30% and 70% of its borrowings.

The Group manages its cash flow interest-rate-risk by using floating-to-fixed interest rate swaps and interest rate caps. Such instruments have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

2 Financial risk management (continued)

(c) Market risk (continued)

Refer to note 18 for further details generally of the Group's borrowings.

A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table at note 2(c)(iv).

(ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. It is the policy of the Group to enter into forward foreign exchange contracts to cover all foreign currency exposure other than those effectively covered within the natural hedging pool.

Refer to note 8 and 16 for receivables and payables denominated in foreign currencies.

Unrealised gains or losses on outstanding foreign exchange contracts are taken to the Group's income statement on a monthly basis.

A sensitivity analysis of foreign exchange risk on the Group's financial assets and liabilities is provided in the table at note 2(c)(iv).

(iii) Price risk

The Group is exposed to commodity price risk through the purchase of steel and various alloys.

(iv) Summarised sensitivity analysis

The following table summarises the pre-tax sensitivity of the Group's financial assets and financial liabilities to interest rate risk, foreign exchange risk and price risk. These sensitivities are prior to the offsetting impact of hedging instruments.

2011		Interest rate risk				Foreign exchange risk			
	Carrying	-100 bps		+100 bps		-10%		+10%	
	amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets									
Cash and cash equivalents	152,476	(1,520)	(1,520)	1,520	1,520	14,756	14,756	(14,756)	(14,756)
Accounts receivable	196,546	-	-	-	-	6,860	6,860	(6,860)	(6,860)
Receivables under finance leases	5,899	-	-	-	-	-	-	-	-
AFS investments	70,054	-	-	-	-	-	-	-	-
Financial liabilities									
Derivatives - cashflow hedges	(27)	-	(1,454)	-	1,519	-	-	-	-
Derivatives - FVTPL	(7,310)	-	-	-	-	6,893	6,893	(21,414)	(21,414)
Trade payables	(86,147)	-	-	-	-	(3,462)	(3,462)	3,462	3,462
Borrowings	(378,578)	3,786	3,786	(3,786)	(3,786)	(11,773)	(11,773)	11,773	11,773
Total increase/(decrease)		2,266	812	(2,266)	(747)	13,274	13,274	(27,795)	(27,795)

2010		Interest rate risk				Foreign exchange risk			
	Carrying	-100 bps		+100 bps		-10%		+10%	
	amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets									
Cash and cash equivalents	63,565	(634)	(634)	634	634	704	704	(704)	(704)
Accounts receivable	102,594	-	-	-	-	4,421	4,421	(4,421)	(4,421)
AFS investments	46,938	-	-	-	-	-	-	-	-
Derivatives - cashflow hedges	120	-	(104)	-	225	-	-	-	-
Derivatives - FVTPL	118	-	-	-	-	(245)	(245)	483	483
Financial liabilities									
Derivatives - cashflow hedges	190	-	(1,796)	-	1,748	-	-	-	-
Derivatives - FVTPL	(342)	-	-	-	-	7,734	7,734	(8,466)	(8,466)
Trade payables	(74,341)	-	-	-	-	(2,833)	(2,833)	2,833	2,833
Borrowings	(307,783)	3,078	3,078	(3,078)	(3,078)	(13,676)	(13,676)	13,676	13,676
Total increase/(decrease)		2,444	544	(2,444)	(471)	(3,895)	(3,895)	3,401	3,401

Financial risk exposure of the parent entity is limited to the exposure of the Group.

2 Financial risk management (continued)

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Bradken Limited has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the group's assets and liabilities measured and recognised at fair value at 30 June 2011 and 30 June 2010.

2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Available-for-sale financial assets				
Equity Securities	70,054	-	-	70,054
Derivatives used for hedging	-	-	-	-
Total assets	70,054	-	-	70,054
Liabilities				
Derivatives used for hedging	-	7,337	-	7,337
Total liabilities	-	7,337	-	7,337

2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Available-for-sale financial assets				
Equity Securities	46,938	-	-	46,938
Derivatives used for hedging	-	238	-	238
Total assets	46,938	238	-	47,176
Liabilities				
Derivatives used for hedging	-	532	-	532
Total liabilities	-	532	-	532

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt investments and derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(q). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 14 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Estimated percentage completion for major contracts

The Group reviews the percentage of completion for it's major contracts monthly including assessing costs to be incurred to complete the project in accordance with the accounting policy stated in note 1(e) and note 1(l). These assessments require an estimate of the remaining labour and material costs for the projects.

4 Segment information

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the Managing Director.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment. Segment assets include all assets used by a segment and consist primarily of receivables, inventories and property, plant and equipment, net of related provisions. Segment liabilities consist primarily of trade and other creditors, employee benefits and provision for service warranties.

Segment revenues, expenses and results include transfers between segments. Sales of scrap between controlled entities are made on an "arm's-length" basis and are eliminated on consolidation. All other transfers are made at variable cost and are eliminated on consolidation.

(a) Description of segments

Industrial is a supplier of cast, machined and fabricated components manufactured to customer specifications or purpose designed to suit customer needs into industries such as Smelters and Refineries, Steel Manufacturers and Sugar Production. Mining Products consists of design, supply and service of wear components for all types of fixed and mobile plant in the Mining, Mineral Processing and Quarry industries. Rail is a package provider of Freight Rollingstock products and services including freight wagons, bogies, drawgear, inventory management, spare and renewed parts and the maintenance and refurbishment of rollingstock. Engineered Products based in the US is a supplier of cast parts to the Energy, Mining, Industrial and Rail Transport industries specialising in large (greater than 4,500 kg) highly engineered steel castings.

The "all other" segment represents the other smaller businesses including Cast Metal Services and Power & Cement.

4 Segment information (continued)

(b) Segment information provided to the Managing Director

The segment information provided to the Managing Director for the reportable segments for the year ending 30 June 2011 and for the year ending 30 June 2010 are as follows:

2011	**Notes**	**Industrial** $'000	**Mining Products** $'000	**Rail** $'000	**Engineered Products** $'000	**All other segments** $'000	**Total** $'000
Total segment revenue		80,689	492,968	222,662	347,828	132,217	1,276,364
Inter-segment revenue		(1,521)	(38,935)	(9,107)	(1,692)	(77,636)	(128,891)
Revenue from external customers		**79,168**	**454,033**	**213,555**	**346,136**	**54,581**	**1,147,473**
Gross margin		**24,047**	**169,219**	**48,582**	**114,555**	**24,174**	**380,577**
Depreciation and amortisation expense		2,940	10,835	4,704	17,650	2,637	38,766
Net interest expense		(13)	12	120	8,006	644	8,769
Impairment of inventories	Note 10	84	1,515	35	(233)	6	1,407
Impairment of trade receivables	Note 8	206	2	-	77	135	420
Income tax expense / (income)		1,968	28,765	2,496	11,033	3,222	47,484
Other non cash expenses / (revenue)		1,291	2,687	(1,983)	6,107	2,310	10,412
Total segment assets		**78,479**	**325,701**	**139,665**	**294,282**	**62,117**	**900,244**
Total segment assets include:							
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets		5,807	18,735	13,712	44,753	2,271	85,278
Total segment liabilities		**14,843**	**68,742**	**26,068**	**53,207**	**8,363**	**171,223**

2010	**Notes**	**Industrial** $'000	**Mining Products** $'000	**Rail** $'000	**Engineered Products** $'000	**All other segments** $'000	**Total** $'000
Total segment revenue		61,640	368,958	326,107	215,292	122,758	1,094,755
Inter-segment revenue		-	(26,876)	(3,073)	4	(61,118)	(91,063)
Revenue from external customers		**61,640**	**342,082**	**323,034**	**215,296**	**61,640**	**1,003,692**
Gross margin		**19,382**	**125,229**	**88,496**	**68,500**	**22,134**	**323,741**
Depreciation and amortisation expense		2,515	10,420	4,034	14,101	2,189	33,259
Net interest expense		(7)	-	(33)	9,331	1,353	10,644
Impairment of inventories	Note 10	11	1,102	(22)	874	260	2,225
Impairment of trade receivables	Note 8	71	12	13	42	26	164
Income tax expense / (income)		1,616	18,559	16,041	689	1,511	38,416
Other non cash expenses / (revenue)		(84)	106	16	(612)	(365)	(939)
Total segment assets		**71,385**	**273,807**	**98,220**	**259,081**	**68,793**	**771,286**
Total segment assets include:							
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets		3,692	9,056	5,473	13,508	982	32,711
Total segment liabilities		**12,638**	**47,611**	**31,530**	**51,699**	**12,589**	**156,067**

4 Segment information (continued)

(c) Other segment information

The Group's divisions are managed on a global basis and operate in four main geographical areas, Australia, the home country of the parent entity, the UK, the US, China and Other countries. The majority of revenue classified as "Other" relates to various European, Asian and North and South American countries.

(i) Segment revenue

Sales between segments under the same tax jurisdiction are made at variable cost and are eliminated on consolidation. Sales between segments under different tax jurisdictions are carried out at arms length and are eliminated on consolidation.

The revenue from external parties reported to the Managing Director is measured in a manner consistent with that in the income statement. Segment revenue reconciles to total revenue from continuing operations as follows:

	2011 $'000	2010 $'000
Total segment revenue	**1,276,364**	1,094,755
Intersegment eliminations	**(128,891)**	(91,063)
Interest revenue	**684**	163
Other revenue	**1,450**	691
Bond repurchase gains	**-**	35
Rental income	**359**	346
Royalty income	**388**	1,060
Sale of scrap	**756**	1,572
Commission income	**371**	-
Other	**2,367**	874
Total revenue from continuing operations (note 5)	**1,153,848**	1,008,433

Segment revenues are allocated based on the country in which the customer is located.

	2011 $'000	2010 $'000
Australia	**648,764**	663,489
US	**287,592**	216,772
Other countries	**211,117**	123,431
Revenue from external customers	**1,147,473**	1,003,692

(ii) Gross margin

The Managing Director assesses the performance of each operating segment based on a measure of gross margin. Gross margin is considered the most relevant measure of individual segment results as manufacturing plants all make product for the various segments and transfer product at cost. This measurement basis excludes the allocation of manufacturing variances and overheads from individual manufacturing plants as any allocation would be arbitrarily based.

A reconciliation of standard gross margin to operating profit before income tax is provided as follows:

	2011 $'000	2010 $'000
Gross margin	**380,577**	323,741
Fixed manufacturing overheads and other cost of sale adjustments	**(112,370)**	(94,711)
Other reveune	**-**	1,158
Other income	**6,375**	4,741
Selling and technical expenses	**(50,573)**	(40,896)
Administration expenses	**(88,154)**	(67,027)
Finance costs	**(37,549)**	(30,484)
Profit before income tax	**98,306**	96,522

4 Segment information (continued)

(c) Other segment information (continued)

(iii) Segment assets

The amounts provided to the Managing Director with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. Reportable segments' assets are reconciled to total assets as follows:

	2011 $'000	2010 $'000
Segment assets	**900,244**	771,286
Unallocated:		
Inventories	**(2,675)**	(2,097)
Current receivables	**(650)**	(29,742)
Intangibles	**118,308**	113,604
Property, plant and equipment	**14,907**	11,638
Available for sale financial assets	**70,056**	46,941
Deferred tax assets	**11,864**	8,547
Cash and cash equivalents	**152,437**	63,532
Derivative financial instruments	**47**	120
Total assets as per the balance sheet	**1,264,538**	983,829

Segment assets are allocated based on where the assets are located.

	2011	2010
Australia	**515,122**	422,965
US	**294,282**	259,081
China	**62,305**	55,586
UK	**25,371**	30,575
Other countries	**3,164**	3,079
Total segment assets	**900,244**	771,286

(iv) Segment liabilities

The amounts provided to the Managing Director with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment and the physical location of the liabilities. Reportable segments' liabilities are reconciled to total liabilities as follows:

	2011 $'000	2010 $'000
Segment liabilities	**171,223**	156,067
Unallocated:		
Payables	**13,106**	12,146
Derivative financial instruments	**7,309**	414
Current provisions	**4,285**	3,237
Non-current provisions	**3,399**	2,390
Current borrowings	**13,392**	16,007
Non-current borrowings	**360,905**	285,987
Current tax liabilities	**17,878**	10,137
Deferred tax liabilities	**21,978**	25,736
Total liabilities as per the balance sheet	**613,475**	512,121

5 Profit from ordinary activities

	2011 $'000	2010 $'000
Revenue		
From continuing operations		
Sales revenue		
Sale of goods	**1,147,473**	1,003,692
	1,147,473	1,003,692
Other revenue		
Interest	**684**	163
Dividends	**1,450**	691
Rental income	**359**	346
Royalty income	**388**	1,060
Bond repurchase gains	**-**	35
Sale of scrap	**756**	1,572
Commission received	**371**	-
Other	**2,367**	874
	1,153,848	1,008,433

Other income

	2011 $'000	2010 $'000
Foreign exchange gains (net) (note (a))	**-**	1,158
	-	1,158

(a) Net foreign exchange gains

	2011 $'000	2010 $'000
Net foreign exchange gains included in other income for the year	**-**	1,158
Net foreign exchange gains recognised in profit before income tax for the year (as either other income or expense)	**-**	1,158

5 Profit from ordinary activities (continued)

Expenses

	2011 **$'000**	2010 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	**2,303**	1,953
Plant & equipment	**29,365**	26,406
Leasehold improvements	**6**	7
Plant & equipment under finance leases	**4,079**	4,817
Total depreciation	**35,753**	33,183
Amortisation		
Customer lists	**4,136**	3,113
Trademarks	**628**	360
Licences and other	**3,524**	3,540
Total amortisation	**8,288**	7,013
Impairment charges		
Goodwill	**8,759**	-
Customer lists	**1,452**	-
Total impairment	**10,211**	-
Finance costs - net		
Interest and finance charges paid/payable	**37,044**	30,482
Borrowing costs amortisation	**6,655**	4,013
	43,699	34,495
Amount capitalised (note (a))	**(6,150)**	(4,011)
Finance costs expensed	**37,549**	30,484
Net loss on disposal of property, plant and equipment	**197**	599
Rental expense relating to operating leases		
Minimum lease payments	**6,143**	4,102
Total rental expense relating to operating leases	**6,143**	4,102
Foreign exchange gains and losses		
Net foreign exchange losses	**8,474**	-
Net foreign exchange losses recognised in profit before income tax for the year (as either other income or expense)	**8,474**	-
Research and development	**1,740**	2,843
ESCO arbitration award	**-**	9,200
Bond repurchase premium	**3,372**	-
Warranty	**4,225**	3,955
Stock Obsolescence	**1,407**	2,225
Net bad and doubtful debts expense (revenue) including movements in doubtful debts provision	**420**	164
Employee benefits expense	**342,766**	290,675

(a) Capitalised borrowing costs

The borrowing costs capitalised represent amounts incurred upfront to renew finance facilities.

6 Income tax expense

	2011 $'000	2010 $'000
(a) Income tax expense		
Current tax	**40,197**	26,672
Deferred tax	**(9,022)**	(2,119)
Adjustment for current tax of prior periods	**(481)**	1,199
	30,694	25,752
Income tax expense is attributable to:		
Profit from continuing operations	**30,694**	25,752
Aggregate income tax expense	**30,694**	25,752
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 13)	**(5,669)**	(3,226)
(Decrease) increase in deferred tax liabilities (note 20)	**(3,353)**	1,107
	(9,022)	(2,119)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**98,306**	96,522
	98,306	96,522
Tax at the Australian tax rate of 30% (2010: 30%)	**29,492**	28,957
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Goodwill impairment	**3,084**	-
Entertainment	**71**	45
Research and development	**(213)**	(213)
Share based payments	**155**	708
Tax offset for franked dividends	**(523)**	(207)
Sundry items	**(3,044)**	(1,380)
	29,022	27,910
Difference in overseas tax rates	**(274)**	(2,185)
Adjustment for current tax of prior periods	**377**	458
Deferred tax assets restated for reduction in overseas tax rate	**87**	(6)
Prior year tax losses not recognised now recouped	**-**	(425)
Prior year tax losses de-recognised as not probable of recovery	**1,482**	-
Income tax expense	**30,694**	25,752
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity		
Net deferred tax - debited (credited) directly to equity (notes 13 and 20)	**(3,843)**	(2,180)
	(3,843)	(2,180)
(d) Tax expense (income) relating to items of other comprehensive income		
Available-for-sale financial assets (note 22(a))	**5,962**	4,986
Cash flow hedges (note 22(a))	**13**	(188)
	5,975	4,798

6 Income tax expense (continued)

(e) Tax consolidation legislation

Bradken Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Bradken Limited.

The Australian entities have also entered into an agreement under which the wholly-owned entities fully compensate Bradken Limited for any current tax payable assumed and are compensated by Bradken Limited for any current tax receivable and deferred tax assets relating to the unused tax losses or unused tax credits that are transferred to Bradken Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of the financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

7 Cash and cash equivalents

	2011 $'000	2010 $'000
Cash at bank and in hand	**152,476**	63,565
	152,476	63,565

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	2011 $'000	2010 $'000
Balances as above	**152,476**	63,565
Bank overdrafts (note 18)	**(9,420)**	(198)
Balances per statement of cash flows	**143,056**	63,367

(b) Interest rate risk exposure

The Group's and parent entity's exposure to interest rate risk is discussed in note 2.

8 Receivables

	2011 $'000	2010 $'000
Current		
Trade receivables	**196,546**	102,594
Provision for impairment of receivables	**(476)**	(358)
	196,070	102,236
Other receivables	**57,722**	31,077
Prepayments	**4,696**	9,035
	258,488	142,348
Non-current		
Other receivables	**1,622**	1,485
	1,622	1,485

8 Receivables (continued)

(a) Impaired trade receivables

As at 30 June 2011 current trade receivables of the Group with a nominal value of $476,000 (2010: $358,000) were impaired. The amount of the provision was $476,000 (2010: $358,000).

Movements in the provision for impairment of receivables are as follows:

	2011 $'000	2010 $'000
Balance at 1 July	**358**	991
Charge for the year	**420**	164
Receivables written off during the year as uncollectable	**(151)**	(267)
Unused amounts reversed	**(61)**	(472)
Foreign currency exchange differences	**(90)**	(58)
Balance at 30 June	**476**	358

The creation and release of the provision for impaired receivables has been included in administration expenses in the income statement. Amounts charged to the provision are generally written off when there is no expectation of recovering additional cash.

(b) Past due but not impaired

At 30 June, the ageing analysis of trade receivables is as follows:

	2011 $'000	2010 $'000
Current	**136,818**	61,340
0-30 days	**44,186**	31,031
31-60 days	**10,018**	3,819
61-90 days	**466**	2,191
91 + days	**5,058**	4,213
Total	**196,546**	102,594

As at 30 June 2011 trade receivables of $476,000 (2010:$358,000) were past due and considered impaired and trade receivables of $59,252,000 (2010:$40,896,000) were past due but not impaired.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

In relation to the receivables recognised as past due but not impaired and impaired, collateral is held in the form of a retention of title over the goods until payment is received. Given the consumable nature of these goods the ability to determine an accurate value for this collateral has been unable to be performed.

(c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group and also include amounts receivable based on the revenue recognised for contracts on a percentage of completion basis.

Also included in other receivables is a refundable deposit with Castle Harlan Inc for future investments of $23,765,000.

(d) Fair values

The fair values and carrying values of non-current receivables of the Group are as follows:

	2011		2010	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Other receivables	**1,622**	1,622	**1,485**	1,485
	1,622	1,622	**1,485**	1,485

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

(e) Credit risk

There is no concentration of credit risk with respect to current and non-current receivables, as the Group has a large number of customers, nationally and internationally dispersed. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

8 Receivables (continued)

(f) Foreign exchange and interest rate risk

The carrying amounts of the Group's and parent entity current and non-current receivables are denominated in the following currencies:

	2011 $'000	2010 $'000
Australian Dollars	**177,709**	84,041
US Dollars	**55,390**	44,694
Canadian Dollars	**14,063**	2,331
Chinese Yuan	**5,360**	6,345
Other *	**7,588**	6,422
	260,110	143,833

* Other refers to a basket of currencies (Euros, Great British Pounds, South African Rand, New Zealand Dollars)

Further information about the Group's and the parent entity's exposure to credit risk, foreign exchange risk and interest rate risk in relation to trade and other receivables is provided in note 2.

9 Other receivables

	2011 $'000	2010 $'000
Current receivables under finance leases (a)	**357**	-
Non current receivables under finance leases (a)	**5,542**	-

(a) Receivables under finance leases

The Group leases freight rail wagons to customers in Australia under finance lease arrangements. Lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets give rise to accounts receivable in the amount of discounted future lease payments. The receivables under finance leases are as follows:

	Not later than one year $'000	Between one and five years $'000	Later than five years $'000
2011			
Present value	357	1,937	3,605
Unearned interest income	699	2,553	1,562
Total future payments	**1,056**	**4,490**	**5,167**

10 Inventories

	2011 $'000	2010 $'000
Construction work in progress:		
Contract costs incurred and recognised profits less recognised losses	**528,787**	564,069
Progress billing	**(529,076)**	(558,214)
Net construction work in progress	**(289)**	5,855
Raw materials and stores - at cost	**37,225**	37,528
Work in progress - at cost	**74,822**	60,098
Finished goods- at net realisable value	**65,789**	58,894
	177,547	162,375

(a) Inventory expense

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2011 amounted to $1,407,000 (2010: $2,225,000). The expense has been included in 'cost of sales' in the income statement.

11 Derivative financial instruments

	2011 $'000	2010 $'000
Current assets		
Interest rate swap and cap contracts - cash flow hedges ((a)(i))	-	120
Forward foreign exchange contracts - cash flow hedges ((a)(ii))	-	118
Total current derivative financial instrument assets	-	238
Current liabilities		
Interest rate swap and cap contracts - cash flow hedges ((b)(i))	27	190
Forward foreign exchange contracts ((a)(ii))	7,310	342
Total current derivative financial instrument liabilities	7,337	532
	(7,337)	(294)

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

(i) Interest rate swap and interest rate cap contracts - cash flow hedges

Bank loans of the Group had an average variable interest rate of 5.86% at 30 June 2011 (2010: 6.60%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates, and interest rate caps which provide protection over an agreed interest rate level.

Swaps and caps currently in place cover approximately 40% of bank loans (2010: 61% of non US bank loans). The average fixed interest for the swaps and caps is 4.59% (2010: 4.47%).

At 30 June 2011, the notional principal amounts and periods of expiry of the interest rate swap and cap contracts are as follows:

	2011 $'000	2010 $'000
Interest rate swap contracts		
1 year or less	60,000	-
1 - 2 years	35,439	60,000
2 - 3 years	30,000	37,621
	125,439	97,621
Interest rate cap contract		
1 - 2 years	20,000	-
2 - 3 years	-	20,000
	20,000	20,000

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately.

At balance date for the Group these contracts were net liabilities with fair value of $27,000 (2010: $70,000 liability). In the year ended 30 June 2011 there was a gain from the change in fair value of $43,000 (2010: $622,000 loss).

11 Derivative financial instruments (continued)

(ii) Forward exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover all foreign currency exposures other than those effectively covered within the natural hedging pool.

The following table details the forward foreign currency contracts outstanding and ranges of maturity as at reporting date:

	2011	2010	**2011**	2010
	$'000	$'000	**Average exchange rate**	
Sell Australian Dollars				
Buy US Dollars				
0 to 3 months	**89,709**	52,464	**0.9980**	0.8772
3 to 6 months	**16,436**	7,478	**0.9905**	0.8495
6 to 12 months	**23,354**	559	**1.0099**	0.8704
Buy Euros				
0 to 3 months	**1,214**	401	**0.6964**	0.6441
3 to 6 months	**1,062**	-	**0.6863**	-
6 to 12 months	**356**	-	**0.6825**	-
Buy Great British Pounds				
0 to 3 months	**641**	2	**0.6470**	0.5818
Buy Canadian Dollars				
0 to 3 months	**-**	56,470	**-**	0.8860
Buy Chinese Renminbi				
0 to 3 months	**9,780**	-	**6.3001**	-
3 to 6 months	**21,812**	-	**6.2283**	-
6 to 12 months	**22,549**	-	**6.2378**	-
Sell Great British Pounds				
Buy Euros				
3 to 6 months	**-**	83	**-**	1.2103
Buy Australian Dollars				
0 to 3 months	**-**	199	**-**	1.7295
Buy Australian Dollars				
Sell US Dollars				
0 to 3 months	**13,146**	14,451	**0.9512**	0.8729
3 to 6 months	**12,765**	7,651	**0.9555**	0.8622
6 to 12 months	**10,284**	7,579	**0.9408**	0.8774
Sell Euros				
0 to 3 months	**1,040**	367	**0.7034**	0.5897
3 to 6 months	**1,064**	2,370	**0.6864**	0.5897
6 to 12 months	**784**	1,706	**0.6817**	0.5897
Sell Great British Pounds				
0 to 3 months	**89**	-	**0.6464**	-
Sell South African Rand				
3 to 6 months	**85**	-	**7.4026**	-

11 Derivative financial instruments (continued)

(ii) Forward exchange contracts (continued)

	2011 $'000	2010 $'000	2011 Average exchange rate	2010 Average exchange rate
Sell Chinese Renminbi				
0 to 3 months	**1,270**	-	**6.4039**	-
3 to 6 months	**4,342**	-	**6.3154**	-
6 to 12 months	**11,954**	-	**6.2672**	-
Sell Japanese Yen				
3 to 6 months	**1,221**	1,809	**79.2800**	81.0600
Buy Great British Pounds				
Sell US Dollars				
0 to 3 months	**-**	269	**-**	1.4817
3 to 6 months	**-**	48	**-**	1.4630
Sell Euros				
0 to 3 months	**1,640**	1,049	**1.1281**	1.1593
3 to 6 months	**-**	321	**-**	1.1629
Sell South African Rands				
0 to 3 months	**-**	461	**-**	11.3119
3 to 6 months	**177**	132	**11.2769**	11.3292

Amounts disclosed above represent currency bought and sold measured at the contracted rate.
The Group has not classified any of these hedging instruments to be effective hedges.

Group
At balance date these contracts were net liabilities of $7,310,000 (2010: $224,000 liability).
In the year ended 30 June 2011 there was a loss from the change in fair value of the liability of $7,086,000 (2010: loss of $352,000)

(b) Risk exposures
Further information about the Group's exposure to credit risk, foreign exchange risk and interest rate risk is provided in note 2.

12 Property, plant and equipment

	Freehold land $'000	Buildings $'000	Leasehold improve- ments $'000	Plant and equipment $'000	Leased plant and equipment $'000	Capital works in progress $'000	Total $'000
At 1 July 2009							
Cost or fair value	27,803	97,321	295	350,797	26,912	27,654	530,782
Accumulated depreciation	-	(6,662)	(48)	(114,729)	(18,013)	-	(139,452)
Net book amount	27,803	90,659	247	236,068	8,899	27,654	391,330
Year ended 30 June 2010							
Opening net book amount	27,803	90,659	247	236,068	8,899	27,654	391,330
Exchange differences	-	(2,813)	5	(5,185)	(29)	-	(8,022)
Additions	-	-	-	-	5,977	29,285	35,262
Transfer (to)/from capital work in progress	203	11,512	-	23,297	2,096	(37,108)	-
Disposals	-	(1)	-	(389)	(15)	-	(405)
Depreciation charge	-	(1,953)	(7)	(26,406)	(4,817)	-	(33,183)
Closing net book amount	28,006	97,404	245	227,385	12,111	19,831	384,982
At 30 June 2010							
Cost or fair value	28,006	105,917	301	364,824	34,558	19,831	553,437
Accumulated depreciation	-	(8,513)	(56)	(137,439)	(22,447)	-	(168,455)
Net book amount	28,006	97,404	245	227,385	12,111	19,831	384,982
Year ended 30 June 2011							
Opening net book amount	28,006	97,404	245	227,385	12,111	19,831	384,982
Exchange differences	(3,257)	(11,496)	(12)	(16,522)	(1,549)	-	(32,836)
Additions	4,200	8,608	-	17,489	3,966	55,800	90,063
Acquisition of subsidiary	500	1,010	-	79	-	-	1,589
Transfer (to)/from capital work in progress	10,326	3,422	-	32,553	(7)	(46,294)	-
Disposals	-	-	-	(291)	-	-	(291)
Depreciation charge	-	(2,303)	(6)	(29,365)	(4,079)	-	(35,753)
Closing net book amount	39,775	96,645	227	231,328	10,442	29,337	407,754
At 30 June 2011							
Cost or fair value	39,775	106,706	286	387,933	36,333	29,337	600,370
Accumulated depreciation	-	(10,061)	(59)	(156,605)	(25,891)	-	(192,616)
Net book amount	39,775	96,645	227	231,328	10,442	29,337	407,754

(a) Non current assets pledged as security

Refer to note 18 for information on non-current assets pledged as security by the group.

13 Deferred tax assets

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Doubtful debts	**213**	266
Employee benefits	**12,799**	11,848
Pension contributions subject to spreading (UK)	**25**	14
Depreciation	**1,430**	1,212
Other provisions	**3,819**	2,519
Unrealised foreign exchange differences	**4,830**	1,156
Other accruals	**7,950**	7,184
Tax losses	**101**	1,693
	31,167	25,892
Amounts recognised directly in equity		
Revaluation of financial assets at fair value	**1,698**	3,703
Cash flow hedges	**8**	21
	1,706	3,724
Total deferred tax assets	**32,873**	29,616
Set off of deferred tax liabilities of parent entity pursuant to set off provisions (note 20)		
Net deferred tax assets	**(21,009)**	(21,069)
	11,864	8,547
Movements:		
Opening balance at 1 July	**29,616**	22,123
Credited/(charged) to the income statement (note 6)	**5,669**	3,226
Credited/(charged) to other comprehensive income (note 6)	**(13)**	188
Credited/(charged) to equity	**(2,584)**	1,193
Pension assets transferred to deferred tax assets	**-**	2,886
Acquisition of subsidiary (note 29)	**185**	-
Closing balance at 30 June	**32,873**	29,616
Deferred tax asset to be recovered after more than 12 months	**14,826**	15,923
Deferred tax asset to be recovered within 12 months	**18,047**	13,693
	32,873	29,616

14 Intangible assets

	Goodwill	Customers	Patents and trademarks	Licences and other	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 2009					
Cost	137,085	38,648	3,744	39,826	219,303
Accumulated amortisation and impairment	-	(3,548)	(324)	(32,287)	(36,159)
Net book amount	137,085	35,100	3,420	7,539	183,144
Year ended 30 June 2010					
Opening net book amount	137,085	35,100	3,420	7,539	183,144
Additions	-	-	-	34	34
Foreign exchange variation	(1,209)	(1,457)	(139)	(9)	(2,814)
Amortisation charge	-	(3,113)	(360)	(3,540)	(7,013)
Closing net book amount	135,876	30,530	2,921	4,024	173,351
At 30 June 2010					
Cost	135,876	37,191	3,605	39,851	216,523
Accumulated amortisation and impairment	-	(6,661)	(684)	(35,827)	(43,172)
Net book amount	135,876	30,530	2,921	4,024	173,351
Year ended 30 June 2011					
Opening net book amount	135,876	30,530	2,921	4,024	173,351
Additions	7,490	12,775	2,738	3,166	26,169
Acquisition of subsidiary	10,682	-	-	-	10,682
Impairment charge	(8,759)	(1,452)	-	-	(10,211)
Foreign exchange variation	(5,047)	(6,982)	(837)	(3)	(12,869)
Amortisation charge	-	(4,136)	(628)	(3,524)	(8,288)
Closing net book amount	140,242	30,735	4,194	3,663	178,834
At 30 June 2011					
Cost	149,001	42,984	5,506	43,014	240,505
Accumulated amortisation and impairment	(8,759)	(12,249)	(1,312)	(39,351)	(61,671)
Net book amount	140,242	30,735	4,194	3,663	178,834

(a) Impairment tests for goodwill and other intangibles

The impairment testing has been performed on the following cash generating units, Industrial, Mining Products, Rail, Power & Cement, Engineered Products and CMS.

The recoverable amount of the CGU is determined based on a value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a perpetual growth rate of between 1.5% and 3.0% pa.

The carrying amounts of goodwill as disclosed in the balance sheet is $8.7m for the Industrial segment, $3.4m for the Rail segment, $38.8m for the Mining Products segment, $83.9m for the Engineered Products segment and $5.5m for CMS included in All Other Segments.

(b) Key assumptions used for value in use calculations

Management determined assumptions on revenue growth, gross margin, overhead level, working capital and capital expenditure have been determined based on past performance and expectations for the future. The weighted average growth rates used are consistent with forecasts included in industry reports.

In performing the value-in-use calculations, the company has applied a post tax discount rate to discount the forecast future attributable post tax cash flows. The post tax discount rate used is an estimated WACC of 11.0% (2010: 11.0%), which would translate into a pre tax discount rate of 15.7% (2010: 15.7%).

The pre tax discount rate for the US operations was 11.0% (2010: 19.4%).

14 Intangible assets (continued)

(c) Impairment charge

Impairment charges of $10,211,000 arose in the period. Goodwill in the Power & Cement business to the value of $8,759,000 was impaired due to continued weak market conditions resulting in projected future cash flows being unable to support the goodwill value carried. No class of asset other than goodwill was impaired in the Power & Cement business. A customer intangible in the Engineered Products business to the value of $1,452,000 was impaired following the loss of the customer.

(d) Impact of possible changes in key assumptions

The impairment testing highlights a reasonable buffer between the value-in-use amount and the net book value of assets of the CGU's. Significant changes in the major assumptions would be required to generate an impairment charge.

(e) Licence renewal

The Amsted licence expired in May 2011 and the Esco licence expired on 30 June 2011. The carrying value of the licences are nil and neither will be renewed.

15 Available for sale financial assets

	2011 $'000	2010 $'000
At beginning of year	**46,938**	10,379
Additions	**3,241**	19,938
Revaluation surplus/(deficit) transfer to equity	**19,875**	16,621
At end of year	**70,054**	46,938
Listed securities (note (a))		
Equity securities	**70,054**	46,938
	70,054	46,938

(a) Listed securities

Listed securities represent an investment in Austin Engineering Limited.

16 Payables

	2011 $'000	2010 $'000
Current		
Trade payables	**86,147**	74,341
Other payables	**41,247**	44,202
	127,394	118,543
Non current		
Other payables	**6,970**	-
	6,970	-

(a) Foreign currency risk

The carrying amounts of the Group's and parent entity's payables are denominated in the following currencies:		
Australian Dollars	**76,693**	70,849
US Dollars	**32,118**	33,137
Chinese Yuan	**16,399**	7,445
Other *	**9,154**	7,112
	134,364	118,543

* Other refers to a basket of currencies (Euros, Great British Pounds, Japanese Yen, New Zealand Dollars, Chilean Pesos)

(b) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

17 Provisions

	2011 $'000	2010 $'000
Current		
Employee benefits	**44,180**	35,207
Warranty	**1,685**	1,683
	45,865	36,890
Non-current		
Employee benefits	**7,475**	12,500
	7,475	12,500

(a) Warranties

Provision is made for known warranty claims at balance date. Most claims are expected to be settled in the next financial year. Management estimates the provision based on expected costs to be incurred to resolve the warranty claim.

(b) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

2011 **Warranty**	Current $'000	Non current $'000
Carrying amount at start of year	1,683	-
Additional provisions recognised	4,225	-
FX variations	(118)	-
Amounts used	(4,105)	-
Carrying amount at end of year	1,685	-

(c) Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	2011 $'000	2010 $'000
Long service leave obligation expected to be settled after 12 months	**1,532**	728

18 Borrowings

	2011 $'000	2010 $'000
Current - secured		
Bank overdrafts	**-**	198
Bank loans	**817**	16,847
Lease liabilities (note 27)	**4,043**	4,447
Hire purchase liabilities (note 27)	**-**	1,199
Total secured current borrowings	**4,860**	22,691
Current - unsecured		
Bank overdrafts	**9,420**	-
Other loans	**751**	1,363
Total unsecured current borrowings	**10,171**	1,363
Total current borrowings	**15,031**	24,054

18 Borrowings (continued)

	2011 $'000	2010 $'000
Non-current secured		
Bank loans	**-**	198,888
Lease liabilities (note 27)	**6,346**	7,908
Total secured non-current borrowings	**6,346**	206,796
Non-current unsecured		
Bank loans	**357,201**	-
US senior notes	**-**	76,933
Total unsecured non-current borrowings	**357,201**	76,933
Total non-current borrowings	**363,547**	283,729

(a) Secured liabilities

The total secured liabilities (current and non-current) are as follows:

	2011 $'000	2010 $'000
Bank loans	**817**	215,933
Lease liabilities	**10,389**	12,355
Hire purchase liabilities	**-**	1,199
Total secured liabilities	**11,206**	229,487

(b) Other loans

Other loans are repayable within twelve months. The current interest rate on these loans are 5.53% (2010: 5.48%).

(c) Risk exposures

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2011 $'000	2010 $'000
Australian Dollars	**260,850**	171,020
US Dollars	**88,744**	99,488
Great British Pounds	**26,978**	31,718
Canadian Dollars	**2,001**	-
Chinese Yuan	**5**	5,557
	378,578	307,783

Further information about the Group's and the parent entity's exposure to foreign exchange risk and interest rate risk and an analysis of the sensitivity of borrowings to interest rate and foreign exchange risk, is provided in note 2.

(d) Assets pledged as security

Refinancing of bank debt took place in April 2011 resulting in US and non US bank debt being repaid and a revised global facility was put in place on an unsecured basis. A Canadian dollar bank loan is secured by a general security arrangement creating a first priority security interest in all personal property of the borrower and a floating charge over all the borrower's real property.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

	2011 $'000	2010 $'000
Current		
Floating charge		
Cash and cash and cash equivalents	**-**	61,382
Receivables	**10,070**	136,441
Inventories	**6,091**	135,982
Derivative financial instruments	**-**	238
Total current assets pledged as security	**16,161**	334,043

18 Borrowings (continued)

	2011 $'000	2010 $'000
Non-current		
First mortgage		
Freehold land and buildings	**8,234**	58,284
Finance lease and hire purchase		
Plant & equipment	**-**	12,063
Floating charge		
Receivables - non-current	**-**	1,485
Property plant & equipment	**12,031**	290,880
Available for sale financial assets	**-**	46,938
	12,031	339,303
Total non-current assets pledged as security	**20,265**	409,650
Total assets pledged as security	**36,426**	743,693

(e) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	2011 $'000	2010 $'000
Credit standby arrangements		
Total facilities		
Bank overdrafts	**30,827**	30,962
Standby letters of credit and bank guarantees	**147,602**	101,762
	178,429	132,724
Used at balance date		
Bank overdrafts	**9,420**	-
Standby letters of credit and bank guarantees	**67,427**	70,941
	76,847	70,941
Unused at balance date		
Bank overdrafts	**21,407**	30,962
Standby letters of credit and bank guarantees	**80,175**	30,821
	101,582	61,783
Bank loan facilities		
Total facilities	**552,951**	408,517
Used at balance date	**363,504**	222,214
Unused at balance date	**189,447**	186,303
US senior notes		
Total facilities	**-**	76,933
Used at balance date	**-**	76,933
Unused at balance date	**-**	-

Bank overdraft limits are comprised of a AUD 30,000,000 bilateral overdraft facility, a GBP 500,000 multi option facility and a NZD 100,000 overdraft facility.

Bank guarantees and letters of credit limits are comprised of a AUD 145,000,000 multicurrency revolving bank guarantee facility, a GBP 1,000,000 guarantees facility, a NZD 50,000 guarantees facility, a AUD 583,000 letter of credit facility and a CAD 500,000 letter of guarantee facility.

The bank loan facilities comprise CAD 5,000,000 revolving loan (Current Interest Rate 3.75%) and the Group Syndicated loan facility with three and five year revolving bullet term loan facilities with a AUD 425,000,000 multi-currency tranche, a USD 100,000,000 tranche and a GBP 20,000,000 tranche. Current interest rate is 5.85%.

18 Borrowings (continued)

(f) Fair value

The carrying amounts and fair values of interest bearing liabilities at balance date are:

	2011		2010	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$'000	**$'000**	$'000	$'000
On balance sheet				
Non traded financial liabilities				
Bank overdrafts	**9,420**	**9,420**	198	198
Bank loans	**358,018**	**358,018**	215,735	215,735
US senior notes	**-**	**-**	76,933	76,933
Other loans	**751**	**751**	1,363	1,363
Lease liabilities	**10,389**	**10,389**	12,355	12,355
Hire purchase liabilities	**-**	**-**	1,199	1,199
	378,578	**378,578**	307,783	307,783

Fair value is inclusive of costs which would be incurred on settlement of a liability.

(i) On balance sheet

The fair value of interest bearing liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

(ii) Off balance sheet

The parent entity and certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in note 26. As explained in those notes, no material losses are anticipated in respect of any of those contingencies.

19 Retirement benefit obligations

(a) Superannuation plan

All employees of the Group are entitled to benefit from various superannuation or pension plans on retirement, disability or death. The Group operates one defined benefit retirement plan in the United States that covers hourly employees hired before May 10, 1993 in one of it's US subsidiaries. Benefits for the defined benefit plan are determined on years of credited service. The Group also operates a number of defined contribution plans which receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

The following sets out details in respect of the defined benefit plan only. The expense recognised in relation to the defined contribution plans is disclosed in note 5.

(b) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:

	2011 $'000	2010 $'000
Present value of the defined benefit obligation	**24,653**	30,643
Fair value of defined benefit plan assets	**(19,616)**	(20,295)
Net liability in the balance sheet	**(5,037)**	(10,348)

The Group has no legal obligation to settle this liability with an immediate contribution or additional one off contributions. The Company contributes such amounts as deemed necessary on an actuarial basis to provide the Plan with assets sufficient to meet benefits paid to Plan participants.

(c) Categories of the plan assets

The major categories of plan assets are as follows:

	2011 $'000	2010 $'000
Cash equivalents	**4,120**	4,476
Fixed interest	**1,177**	1,839
Equity securities	**14,319**	13,980
	19,616	20,295

(d) Reconciliations

	2011 $'000	2010 $'000
Reconciliation of the present value of the defined benefit obligation, which is partly funded:		
Balance at the beginning of the year	**30,643**	27,599
Current service cost	**265**	269
Interest cost	**1,343**	1,590
Actuarial (gains) and losses	**69**	4,026
Benefits paid	**(1,356)**	(1,477)
FX Translation	**(6,311)**	(1,364)
	24,653	30,643
Reconciliation of the fair value of plan assets:		
Balance at the beginning of the year	**20,295**	20,007
Actual return on plan assets	**4,549**	2,719
Contributions by Group companies	**589**	97
Benefits paid	**(1,356)**	(1,477)
FX Translation	**(4,461)**	(1,051)
	19,616	20,295

19 Retirement benefit obligations (continued)

(e) Amounts recognised in profit or loss

The amounts recognised in profit or loss are as follow:

	2011 $'000	2010 $'000
Current service cost	**265**	269
Interest cost	**1,343**	1,590
Expected return on plan assets	**(1,199)**	(1,263)
Recognised net actuarial loss	**650**	559
Past service cost	**86**	96
Total included in employee benefits expense	**1,145**	1,251

(f) Amounts recognised in other comprehensive income

	2011 $'000	2010 $'000
Actuarial (loss)/gain recognised in the year	**3,622**	(2,012)
Cumulative actuarial (losses)/gains recognised in other comprehensive income	**(4,048)**	(8,945)

(g) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	2011	2010
Discount rate	**5.28%**	5.17%
Expected long-term return on plan assets	**7.00%**	7.00%
Rate of compensation increase	**N/A**	N/A

The Company selects the expected long-term rate of return on assets in consultation with its investment advisers and actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits, and the plan is assumed to continue in force as long as assets are expected to be invested. In estimating that rate, appropriate consideration is given to historical performance for the major asset classes held or anticipated to be held by the plan and to current forecasts of future rates of return for those asset classes. Cash flow and expenses are taken into consideration to the extent that the expected return would be affected by them. Because assets are held in a qualified trust, anticipated returns are not reduced for taxes.

(h) Employer contributions

Employer contributions to the defined benefit plan are based on recommendations by the plan's actuary. Actuarial assessments are performed annually, and the last such assessment was made during April 2011.

Total employer contributions expected to be paid by Group companies for the year ending 30 June 2012 are $1,095,278.

(i) Historic summary

	2011 $'000	2010 $'000	2009 $'000
Defined benefit plan obligation	**24,653**	30,643	27,599
Plan assets	**(19,616)**	(20,295)	(20,007)
Surplus / (deficit)	**(5,037)**	(10,348)	(7,592)

20 Deferred tax liabilities

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Prepayments	**362**	429
Design assets	**149**	230
Unrealised foreign exchange differences	**1,048**	4,198
Financial assets at fair value through profit or loss	**1,359**	1,658
Licences	**-**	968
Depreciation	**26,014**	33,987
Other	**4,137**	1,379
	33,069	42,849
Amounts recognised directly in equity		
Revaluation of Available-for-sale asset	**9,918**	3,956
	9,918	3,956
Total deferred tax liabilities	**42,987**	46,805
Set off of deferred tax liabilities of parent entity pursuant to set off provisions (note 13)	**(21,009)**	(21,069)
Net deferred tax liabilities	**21,978**	25,736
Movements:		
Opening balance at 1 July	**46,805**	38,813
Pension assets transferred to deferred tax assets	**-**	2,886
Charged/(credited) to the income statement (note 6)	**(3,353)**	1,107
Charged/(credited) to other comprehensive income (note 6)	**5,962**	4,986
Charged/(credited) to equity (notes 21 and 22)	**(6,427)**	(987)
Closing balance at 30 June	**42,987**	46,805
Deferred tax liabilities to be settled after more than 12 months	**41,488**	43,696
Deferred tax liabilities to be settled within 12 months	**1,499**	3,109
	42,987	46,805

21 Contributed equity

	Notes	Parent entity		Parent entity	
		2011	2010	**2011**	2010
		Shares	Shares	**$'000**	$'000
(a) Share capital					
Ordinary shares	(b),(c)				
Fully paid		**161,837,406**	138,747,494	**654,865**	468,460
Total contributed equity				**654,865**	468,460

(b) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Parent entity $'000
At 1 July 2009	**Opening balance**		**126,912,477**	**389,082**
7 September 2009	Dividend reinvestment plan issues	(d)	2,639,562	16,496
8 September 2009 to 22 February 2010	Exercise of Rights	(e)	232,206	-
15 March 2010	Dividend reinvestment plan issues	(d)	734,916	4,970
25 May 2010 to 23 June 2010	Equity raisings net of placement costs		8,228,333	57,912
At 30 June 2010	**Balance**		**138,747,494**	**468,460**
13 August 2010 to 19 May 2011	Exercise of Rights	(e)	313,870	2,388
13 September 2010	Dividend reinvestment plan issues	(d)	586,645	4,377
21 March 2011	Dividend reinvestment plan issues	(d)	1,346,906	10,761
21 March 2011	Dividend reinvestment plan issue underwriting	(d)	1,839,309	15,072
1 June 2011 to 30 June 2011	Equity raisings net of placement costs		19,003,182	153,807
At 30 June 2011	**Balance**		**161,837,406**	**654,865**

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Dividend reinvestment plan

The company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. The plan was active during the 2010 and 2011 years.

(e) Performance Rights Plan

Information relating to the Performance Rights Plan, including details of shares issued under the plan, is set out in note 35.

(f) Non-executive director share acquisition plan

Information relating to the non-exective director share acquisition plan, including details of shares issued under the plan, is set out in note 35.

(g) Share buy-back

There were no share buy-backs in the period.

22 Reserves and retained profits

	2011 $'000	2010 $'000
(a) Reserves		
Hedging reserve - cash flow hedges	**(16)**	(46)
Share based payments reserve	**5,975**	5,457
Foreign currency translation reserve	**(34,924)**	1,230
Revaluation reserve	**23,143**	9,230
Transactions with non-controlling interests	**(564)**	(469)
	(6,386)	15,402
Movements:		
Hedging reserve - cash flow hedges		
Balance 1 July	**(46)**	388
Revaluation-gross (note 11)	**43**	(622)
Deferred tax (note 13)	**(13)**	188
Balance 30 June	**(16)**	(46)
Share-based payments reserve		
Balance 1 July	**5,457**	3,097
Rights expense	**2,906**	2,360
Transfer to share capital (Rights exercised)	**(2,388)**	-
Balance 30 June	**5,975**	5,457
Foreign currency translation reserve		
Balance 1 July	**1,230**	4,897
Currency translation differences arising during the year	**(36,154)**	(3,667)
Balance 30 June	**(34,924)**	1,230
Available-for-sale financial assets reserve		
Balance 1 July	**9,230**	(2,405)
Revaluation-gross (note 15)	**19,875**	16,621
Deferred tax (note 20)	**(5,962)**	(4,986)
Balance 30 June	**23,143**	9,230
Transactions with non-controlling interests		
Balance 1 July	**(469)**	-
Acquisition of additional ownership Cast Metal Services Pty Ltd (see note 30)	**(95)**	(469)
Balance 30 June	**(564)**	(469)
(b) Retained profits		
Balance 1 July	**153,270**	117,442
Net profit for the year	**67,561**	70,441
Dividends	**(54,971)**	(33,371)
Taxation adjustment	**-**	5
Actuarial (losses) / gains on retirement benefit obligations, net of tax	**2,346**	(1,247)
Balance 30 June	**168,206**	153,270

(c) Nature and purpose of reserves

(i) Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(n). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(ii) Share-based payments reserve

The share based payments reserve is used to recognise the fair value of rights issued but not exercised.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

22 Reserves and retained profits (continued)

(iv) Available-for-sale financial assets reserve

Changes in the fair value and exchange differences arising on translation of investments, such as equities classified as available-for-sale financial assets, are recognised in other comprehensive income as described in note 1(m) and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

(v) Transactions with non-controlling interests

This reserve is used to record the differences described in note 1(b)(ii) which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

23 Dividends

	2011 $'000	2010 $'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2010 of 21.0 cents (2009: 13.0 cents) per fully paid share paid on 13 September 2010 (2009: 7 September 2009)		
Fully franked based on tax paid @ 30%	**29,138**	16,499
Interim dividend for the year ended 30 June 2011 of 18.5 cents (2010: 13.0 cents) per fully paid share paid 21 March 2011 (2010: 15 March 2010)		
Fully franked based on tax paid @ 30%	**25,833**	16,872
Total dividends provided for or paid	**54,971**	33,371
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2010 and 30 June 2011 were as follows:		
Paid in cash	**39,833**	11,905
Satisfied by issue of shares	**15,138**	21,466
	54,971	33,371
(b) Dividends not recognised at year end		
In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 21.0 cents per fully paid ordinary share, (2010: 21.0 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 19 September 2011 out of retained profits at 30 June 2011, but not recognised as a liability at year end, is	**33,988**	29,137

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2011 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2012.

	Consolidated		Parent entity	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2010: 30%)	**47,544**	40,484	**47,544**	40,484

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $14,566,000 (2010: $12,487,000).

24 Key management personnel disclosures

(a) Directors

The following persons were directors of Bradken Limited during the financial year:

(i) Chairman - non-executive

Nick Greiner

(ii) Executive director

Brian Hodges, Managing Director

(iii) Non executive directors

Phil Arnall

Vince O'Rourke

Greg Laurie

Peter Richards

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	*Position*	*Employer*
Tom Armstrong	Chief Operating Officer - Engineered Products	Bradken Holdings USA, Inc
Bruce Arnott	Chief Financial Officer	Bradken Resources Pty Ltd
Andrew Allen	General Manager - Rail	Bradken Resources Pty Ltd
Enda Sheridan	General Manager - Mining Products & Industrial Products	Bradken Resources Pty Ltd

(c) Key management personnel compensation

	2011	2010
	$	$
Short-term employee benefits	**5,476,670**	4,156,221
Post-employment benefits	**198,106**	226,220
Share-based payments	**959,342**	858,917
	6,634,118	5,241,358

The company has taken advantage of the relief provided by *Corporations Regulation* 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections (a) to (d) of the remuneration report on pages 12 to 18.

(d) Equity instrument disclosures relating to key management personnel

(i) Rights provided as remuneration and shares issued on exercise of rights

Details of Performance Rights provided as remuneration and shares issued on the exercise of such Rights, together with terms and conditions of the Rights, can be found in section (d) of the remuneration report on pages 16 to 18.

24 Key management personnel disclosures (continued)

(ii) Rights holdings

The number of Rights over ordinary shares in the company held during the financial year by each director of Bradken Limited and other key management personnel of the Group, including their personally related entities, are set out below.

2011 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Bradken Limited						
Brian Hodges	219,509	79,890	(37,310)	(8,191)	253,898	-
Other key management personnel of the Group						
Andrew Allen	42,867	20,278	(7,909)	(1,737)	53,499	-
Tom Armstrong	38,265	25,793	(7,653)	-	56,405	-
Bruce Arnott	60,551	29,129	(10,633)	(2,335)	76,712	-
Enda Sheridan	97,278	36,331	(17,100)	(3,754)	112,755	-

2010 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Bradken Limited						
Brian Hodges	180,421	110,381	(64,877)	(6,416)	219,509	-
Other key management personnel of the Group						
Andrew Allen	38,268	21,421	(15,308)	(1,514)	42,867	-
Tom Armstrong	-	38,265	-	-	38,265	-
Bruce Arnott	50,095	30,184	(17,952)	(1,776)	60,551	-
Greg Dalziel	11,471	15,681	-	-	27,152	-
Enda Sheridan	67,352	49,259	(17,593)	(1,740)	97,278	-

(iii) Share holdings

The number of shares in the company held during the financial year by each director of Bradken Limited and other key management personnel of the Group, including their personally related entities, are set out below. There were no shares granted during the year as compensation.

2011 Name	Balance at the start of the year	Received during the year from Non-Executive Director Share Acquisition Plan	Received during the year on exercise of Rights	Other changes during the year	Balance at the end of the year
Directors of Bradken Limited					
Nick Greiner	362,922	-	-	867	363,789
Brian Hodges	2,500,427	-	37,310	(185,513)	2,352,224
Phil Arnall	502,749	-	-	-	502,749
Greg Laurie	59,340	-	-	-	59,340
Vince O'Rourke	75,357	-	-	3,917	79,274
Peter Richards	21,319	-	-	829	22,148
Other key management personnel of the Group					
Andrew Allen	366,706	-	7,909	109	374,724
Tom Armstrong	73,002	-	7,653	(42,653)	38,002
Bruce Arnott	131,657	-	10,633	(10,957)	131,333
Enda Sheridan	612,392	-	17,100	-	629,492

24 Key management personnel disclosures (continued)

(iii) Share holdings (continued)

2010 Name	Balance at the start of the year	Received during the year from Non-Executive Director Share Acquisition Plan	Received during the year on exercise of Rights	Other changes during the year	Balance at the end of the year
Directors of Bradken Limited					
Nick Greiner	407,274	-	-	(44,352)	362,922
Brian Hodges	2,745,307	-	64,877	(309,757)	2,500,427
Phil Arnall	600,622	-	-	(97,873)	502,749
Greg Laurie	57,922	-	-	1,418	59,340
Vince O'Rourke	69,347	-	-	6,010	75,357
Peter Richards	20,000	-	-	1,319	21,319
Other key management personnel of the Group					
Andrew Allen	351,398	-	15,308	-	366,706
Tom Armstrong	70,302	-	-	2,700	73,002
Bruce Arnott	112,054	-	17,952	1,651	131,657
Enda Sheridan	644,737	-	17,593	(49,938)	612,392

25 Remuneration of auditors

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non related audit firms:

	2011 **$**	2010 $
(a) Assurance services		
Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under *Corporations Act 2001*	**423,538**	383,275
Related practices of PricewaterhouseCoopers Australian firm	**177,885**	200,703
Non-PricewaterhouseCoopers audit firm (Deloittes NZ)	**16,103**	22,373
Non-PricewaterhouseCoopers audit firm (KPMG US)	**-**	24,144
Non-PricewaterhouseCoopers audit firm (Grant Thornton)	**290,431**	332,497
Total remuneration for audit services	**907,957**	962,992
Other assurance services		
Related practices of PricewaterhouseCoopers Australian firm		
Accounting services	**41,778**	-
Non-PricewaterhouseCoopers audit firm (Fubang China)		
Capital verification services	**428**	-
Total remuneration for other assurance services	**42,206**	-
Total remuneration for assurance services	**950,163**	962,992
(b) Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance including review of company income tax returns	**215,675**	150,875
Related practices of PricewaterhouseCoopers Australian firm	**13,442**	29,881
Non-PricewaterhouseCoopers audit firm (Deloittes NZ)	**5,706**	6,085
Non-PricewaterhouseCoopers audit firm (KPMG US)	**349,502**	388,369
Non-PricewaterhouseCoopers audit firm (Ernst & Young China)	**12,156**	15,877
Non-PricewaterhouseCoopers audit firm (Tianrui China)	**382**	249
Non-PricewaterhouseCoopers audit firm (Tianrui China)	**183**	-
Total remuneration for taxation services	**597,046**	591,336

26 Contingent liabilities

(a) Contingent Liabilities

The parent entity and Group had contingent liabilities at 30 June 2011 and 2010 in respect of:

Guarantees and letters of credit

	2011	2010
	$'000	$'000
Bank guarantees for contract performance	**64,392**	60,744
Letters of credit	**3,035**	10,197
Total estimated contingent liabilities	**67,427**	70,941

Information about guarantees given by entities within the Group, including the parent entity are described in note 31. No deficiencies of assets exist in any of these companies.

Claims

The Bradken Group has been involved from time to time in various claims and lawsuits incidental to the ordinary course of business, including damages and commercial disputes relating to its products and services. The Group has disclaimed liability and will defend any action flowing from specific claims. It is not practical to estimate the potential effect of these claims but legal advice obtained indicates that any liability that may arise in the unlikely event these claims are successful will not be significant.

No material losses are anticipated in respect of any of the above contingent liabilities.

27 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2011	2010
	$'000	$'000
Land & buildings		
Payable:		
Within one year	**17,597**	2,688
	17,597	2,688
Property, plant and equipment		
Payable:		
Within one year	**28,188**	5,576
	28,188	5,576

(b) Lease and hire purchase commitments

Commitments in relation to leases and hire purchases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	**6,085**	4,502
Later than one year but not later than five years	**11,415**	6,168
Later than five years	**2,289**	900
	19,789	11,570
Representing:		
Non cancellable operating leases	**18,381**	9,599
Future finance charges on finance leases	**1,408**	1,941
Future finance charges on hire purchases	**-**	30
	19,789	11,570

27 Commitments (continued)

(i) Operating leases

Operating leases relate to buildings and plant and equipment with lease terms generally between 1 to 5 years with a small amount being payable over greater than 5 years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

	2011 $'000	2010 $'000
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows:		
Within one year	**5,380**	3,584
Later than one year but not later than five years	**10,713**	5,133
Later than five years	**2,288**	882
	18,381	9,599

(ii) Finance leases

The Group leases various items of plant and equipment with a carrying amount of $10,442,000 (2010: $12,111,000) under finance leases expiring within three to five years. Under the terms of the leases, the Group has the option to acquire some of the leased assets on expiry of the leases.

	2011 $'000	2010 $'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**4,775**	5,286
Later than one year but not later than five years	**7,002**	8,742
Later than five years	**20**	268
Minimum lease payments	**11,797**	14,296
Future finance charges	**(1,408)**	(1,941)
Total lease liabilities	**10,389**	12,355
Representing lease liabilities:		
Current (note 18)	**4,043**	4,447
Non current (note 18)	**6,346**	7,908
	10,389	12,355

The weighted average interest rate implicit in the leases is 8.73**%** (2010: 8.59%).

(iii) Hire purchase payment commitments

The Group acquired some items of production plant and equipment under hire purchase arrangements.

	2011 $'000	2010 $'000
Commitments in relation to hire purchases are payable as follows:		
Within one year	**-**	1,229
Minimum lease payments	**-**	1,229
Future finance charges	**-**	(30)
Recognised as a liability	**-**	1,199
Total lease liabilities	**-**	1,199
Representing lease liabilities:		
Current (note 18)	**-**	1,199
	-	1,199

The weighted average interest rate implicit in the agreement is Nil **%** (2010: 6.57%).

28 Related party transactions

(a) Parent entities

The ultimate parent entity within the Group is Bradken Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 30.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 24.

(d) Terms and conditions

Transactions relating to dividends were on the same conditions that applied to other shareholders.

The terms and conditions of the tax funding agreement are set out in note 6(e).

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. Outstanding balances are unsecured with no fixed term for repayment.

29 Business combination

(a) Summary of acquisitions and assets and liabilities acquired

Current Period

(i) Almac Machine Works

On 10 July 2010 Bradken Canada Ltd (a 100% subsidiary of Bradken Limited) acquired the assets of Almac Machine Works in Edmonton, Alberta, Canada for a consideration of A$52.6m.

To fund the acquisition A$49.3 million was raised via a fully underwritten institutional placement which was completed on 18 May 2010 resulting in the issue of 7,092,200 ordinary shares. In addition a Share Purchase Plan raised an additional $8.0 million resulting in the issue of a further 1,136,133 ordinary shares.

As the acquired business has been absorbed into the North American Engineered Products business, it is not practical to disclose revenues and net profit after tax to the Group for the full year as if the acquisitions had taken place on 1 July 2010. Acquisition costs for the period were $744,000 and are included in administration expenses in profit or loss.

Details of net assets acquired and goodwill are as follows:

	$'000
Purchase consideration	**52,585**
Fair value of net identifiable assets acquired (refer below)	**50,452**
Goodwill	**2,133**

The goodwill is attributable to the profitability of the acquired business and synergies expected to arise after the Group's acquisition of the Almac business. The fair value of assets and liabilities arising from the acquisition are as follows:

	Fair value $'000
Property, plant and equipment	24,061
Inventories	4,811
Receivables	7,762
Customer lists	12,775
Patents	2,737
Payables	(1,694)
Net identifiable assets acquired	**50,452**

(ii) Other acquisitions in the period

Between 28 October 2010 and 19 May 2011 three small acquisitions have been made. The assets of Materix Enginerring Pty Ltd and Investment Castings Pty Ltd were acquired on 28 October 2010 and 15 November 2010 respectively. On 19 May 2011 the Bradken Group acquired Wear Protect Systems Pty Ltd and two of it's related companies.

Total provisional consideration for these acquisitions amounted to $29.7m, with funding from existing facilities.

As the acquired business have been absorbed into the Australian based Industrial and Mining Products businesses, it is not practical to disclose revenues and net profit after tax to the Group for the full year as if the acquisitions had taken place on 1 July 2010 . Acquisition costs for the period were $338,000 and are included in administration expenses in profit or loss.

Details of provisional net assets acquired and provisional goodwill are as follows:

	$'000
Provisional purchase consideration	**29,685**
Provisional fair value of net identifiable assets acquired (refer below)	**13,646**
Provisional goodwill	**16,039**

29 Business combination (continued)

(ii) Other acquisitions in the period (continued)

The provisional goodwill is attributable to the profitability of the acquired business and synergies expected to arise after the Group's acquisition of the businesses. The fair value will be finalised and any adjustments disclosed in the Group's financial statements for the year ended 30 June 2012. The provisional fair value of assets and liabilities arising from the acquisition are as follows:

	Provisional fair value $'000
Cash	661
Property, plant and equipment	7,825
Inventories	1,188
Receivables	4,157
Payables	(1,555)
Provisions for employee entitlements	(507)
Deferred tax assets	185
Current tax liabilities	1,692
Net identifiable assets acquired	**13,646**

30 Transactions with non-controlling interests

(a) Transactions with non-controlling interests

On 28 February 2011, Bradken Resources Pty Ltd acquired the remaining 30% of the issued shares of CMS HAA Pty Ltd that it did not already own for a purchase consideration of $216,669. The carrying amount of the non-controlling interests in CMS HAA Pty Ltd on the date of acquisition was $122,000. The group recognised a decrease in non-controlling interests of $122,000 and a decrease in equity attributable to owners of the parent of $95,000. The effect of changes in the ownership interest of CMS HAA Pty Ltd on the equity attributable to owners of Bradken Resources Pty Ltd during the year is summarised as follows:

	2011 $'000	2010 $'000
Carrying amount of non-controlling interests acquired	**122**	2,781
Consideration paid to non-controlling interests	**(217)**	(3,250)
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	**(95)**	(469)

31 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit, and lodgement of financial reports, and directors' report. It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee.

The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act 2001, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The companies subject to the Deed are:

- Bradken Limited
- Bradken SPV Pty Limited
- Bradken Resources Pty Limited
- Bradken Mining SPV Pty Limited
- Cast Metal Services Pty Limited (became a party to the deed on 16 June 2011)
- Geoff Brown and Co. Pty Limited (became a party to the deed on 16 June 2011)
- Bradken Holdings Pty Limited
- Bradken Operations Pty Limited
- Bradken Finance Pty Limited

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Bradken Limited, they also represent the 'Extended Closed Group'.

31 Deed of cross guarantee (continued)

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2011 of the Closed Group outlined above.

	2011 $'000	2010 $'000
Income statement		
Revenue from continuing operations	**766,478**	611,963
Cost of sales	**(583,135)**	(443,008)
Gross profit	**183,343**	168,955
Other income	**-**	2,119
Selling and technical expenses	**(39,352)**	(30,481)
Administration expenses	**(49,893)**	(44,394)
Finance costs	**(28,616)**	(18,547)
Profit before income tax	**65,482**	77,652
Income tax (expense) / benefit	**(17,869)**	(22,648)
Profit for the year	**47,613**	55,004
Statement of comprehensive income		
Profit for the year	**47,613**	55,004
Changes in the fair value of available-for-sale financial assets	**19,875**	16,620
Changes in the fair value of cash flow hedges	**43**	(622)
Exchange differences on translation of foreign operations	**(117)**	38
Income tax relating to components of other comprehensive income	**(5,975)**	(4,798)
Other comprehensive income for the year net of tax	**13,826**	11,238
Total comprehensive income for the year	**61,439**	66,242
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**130,507**	108,874
Profit for the year	**47,613**	55,004
Dividends provided for or paid	**(54,971)**	(33,371)
Companies joining the Closed Group	**5,420**	-
Retained earnings at the end of the financial year	**128,569**	130,507

31 Deed of cross guarantee (continued)

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2011 for the Closed Group outlined above.

	2011 $'000	2010 $'000
Current assets		
Cash and cash equivalents	**6,100**	54,896
Receivables	**352,036**	122,040
Other receivables and other assets	**357**	-
Inventories	**79,741**	61,984
Derivative financial instruments	**-**	120
Total current assets	**438,234**	239,040
Non-current assets		
Receivables	**57**	13
Other financial assets	**273,166**	200,374
Available for sale financial assets	**70,054**	46,938
Property, plant and equipment	**232,255**	221,899
Intangible assets	**47,599**	38,302
Deferred tax assets	**8,424**	4,862
Total non-current assets	**631,555**	512,388
Total assets	**1,069,789**	751,428
Current liabilities		
Payables	**80,802**	67,823
Borrowings	**12,602**	8,670
Current tax liabilities	**11,901**	7,433
Provisions	**34,187**	29,679
Derivative financial instruments	**7,337**	414
Total Current Liabilities	**146,829**	114,019
Non-current liabilities		
Borrowings	**275,226**	186,818
Provisions	**3,533**	2,736
Total non-current liabilities	**278,759**	189,554
Total liabilities	**425,588**	303,573
Net assets	**644,201**	447,855
Equity		
Contributed equity	**487,343**	302,838
Reserves	**28,289**	14,510
Retained profits	**128,569**	130,507
Total equity	**644,201**	447,855

32 Reconciliation of profit after income tax to net cash inflow from operating activities

	2011 $'000	2010 $'000
Profit for the year	**67,612**	70,770
Depreciation and amortisation of licences and designs	**44,041**	40,196
Impairment of goodwill and customer intangibles	**10,211**	-
Amortisation of finance costs	**6,655**	4,013
Non-cash employee benefits expense - share-based payments	**2,906**	2,360
Net (gain) loss on sale of non-current assets	**197**	599
Net exchange differences	**5,776**	813
(Increase) / decrease in trade debtors and bills of exchange	**(104,175)**	13,961
(Increase) / decrease in inventories	**(31,915)**	10,031
(Increase) / decrease in other financial assets at fair value through profit or loss	**238**	442
(Increase) / decrease in deferred tax assets	**(5,914)**	4,668
Increase / (decrease) in trade creditors	**16,830**	(4,282)
(Increase) / decrease in other financial liabilities at fair value through profit or loss	**6,805**	532
Increase / (decrease) in provision for income taxes payable	**9,220**	7,202
Increase / (decrease) in provision for deferred income tax	**(3,294)**	(6,590)
Increase / (decrease) in other provisions	**7,184**	2,714
Net cash inflow from operating activities	**32,377**	147,429

33 Non cash investing and financing activities

	2011 $'000	2010 $'000
Acquisition of plant and equipment by means of finance leases	**3,966**	5,977
	3,966	5,977

Dividends satisfied by the issue of shares under the dividend reinvestment plan are shown in note 23 and rights and shares issued to employees under the Bradken Limited Performance Rights Plan and the Bradken Limited Employee Share Plan for no cash consideration are shown in note 35.

Ordinary shares issued for acquisition of entities for no cash consideration are shown in note 21.

34 Earnings per share

	2011 Cents	2010 Cents
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	**47.6**	54.1
Profit attributable to the ordinary equity holders of the company	**47.6**	54.1
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	**47.1**	53.6
Profit attributable to the ordinary equity holders of the company	**47.1**	53.6

(c) Reconciliations of earnings used in calculating earnings per share

	2011 $'000	2010 $'000
Basic earnings per share		
Profit from continuing operations	**67,612**	70,770
Profit from continuing operations attributable to non-controlling interests	**(51)**	(329)
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**67,561**	70,441
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**67,561**	70,441
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**67,561**	70,441
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**67,561**	70,441

(d) Weighted average number of shares used as the denominator

	2011 Number	2010 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**141,860,442**	130,191,911
Adjustments for calculation of diluted earnings per share:		
Rights	**1,580,597**	1,261,850
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**143,441,039**	131,453,761

(e) Information concerning the classification of securities

(i) Rights

Rights granted to employees under the Bradken Performance Rights Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The Rights have not been included in the determination of basic earnings per share. Details relating to the Rights are set out in note 35.

35 Share based payments

(a) Non-Executive Director Share Acquisition Plan

The Company has a Non-Executive Director Share Acquisition Plan (NED Plan). All current and future Non-Executive Directors are encouraged to have a percentage of their annual Directors' fees provided in shares under the NED Plan. Shares will be allocated to the Non-Executive Directors under the NED Plan and must be held for a specified period.

Non-executive directors may elect to have a percentage of their annual fixed directors' fees provided in shares under the Non-Executive Director Share Acquisition Plan (NED plan). Participation in the plan is voluntary.

Non-Executive Directors will not be able to sell or otherwise dispose of the shares until the earliest of 10 years after acquisition or the Non-Executive Director ceasing to be a director of the Company (except in very limited circumstances). During this period the shares will be subject to a holding lock.

At 30 June 2011 there are no Directors participating in the plan.

(b) Performance Rights Plan

The Performance Rights Plan (PRP) is the Company's long-term incentive (LTI) scheme for selected key executives. The Managing Director recommends the list of executives who are entitled to participate in this scheme and seeks approval of the list from the Human Resources Committee which is then ratified by the Board. Under the PRP, eligible executives may be granted Performance Rights (each being a right to acquire a share, subject to the satisfaction of exercise conditions) on terms and conditions determined by the Board and as doocumented in the PRP Plan rules and Trust Deed. If the exercise conditions are satisfied, the Performance Rights may be exercised and the shares issued and delivered to the executive. The Board may impose restrictions on the disposal of the shares and implement procedures to enforce the restrictions.

The rules of the PRP provide that the Board may determine a price that is payable to exercise a Performance Right, or that no amount is payable by the executive upon exercise of the Right.

Shares will immediately be allocated on exercise of a Performance Right. Performance Rights may only be exercised following satisfaction of performance conditions, unless the Board determines an event (such as a takeover bid) has occurred.

All grants of Performance Rights issued so far have been at no cost to participating executives. In relation to future grants, the Board may impose performance conditions that reflect the Company's business plans, targets, budgets and its performance relative to peer groups of companies.

If any additional persons become entitled to participate in the PRP and their participation requires approval under Chapter 10 of the Listing Rules, they will not participate in the PRP until shareholder approval is received pursuant to Listing Rule 10.14. Mr Brian Hodges, being the only Executive Director of the Company, is the only Director entitled to participate in the PRP. If any other Director is to participate in the PRP, the Company would seek shareholder approval as required by the Listing Rules.

The performance conditions are based on the relative total shareholder return ("TSR") of the Company measured against other companies in the ASX Small Cap Industrials index during the performance period. TSR measures the total return on investment of a share taking into account capital appreciation, capital return and dividend income.

35 Share based payments (continued)

(b) Performance Rights Plan (continued)

In assessing whether the performance hurdles have been met, the Human Resources Committee receives independent data from an independent investment bank which provides both Bradken's growth from previous financial years and that of the ASX Small Industrials Index. The Company's performance against the hurdle is then determined with each company in the ASX Small Industrials Index and Bradken being ranked in order of growth in results from previous financial years. The Company's percentile ranking is determined by aggregating the weighting within the ASX Small Industrials Index (based on market capitalisation) of each company ranked below Bradken. The method of assessment was chosen as it provides the Committee with an objective means of measuring the Company's performance against its peer group.

Dividends, changes in share price, and return of capital are included in the TSR calculation which is one of the performance criteria assessed for the LTI. The specific TSR performance conditions in relation to the grants are:

Target	Percentage of Rights available in given year to vest
The Company's TSR does not meet performance of the median company in ASX Small Cap	0
The Company's TSR equals or exceeds performance of the median company in ASX Small Cap	50
The Company's TSR ranked in third quartile of companies in ASX Small Cap	Pro rata between 50 and 100
The Company's TSR ranked in fourth quartile of companies in ASX Small Cap	100

New entrants to the scheme are provided with a transition to the 3 year plan.

Summary of Rights issues in the plan:

Grant date	Number of Rights	Fair value per Right	Financial periods in which Rights may vest
31 October 2007	11,682	$6.87	30 June 2010 / 2011
31 October 2007	259,691	$8.45	30 June 2011
17 October 2008	25,025	$2.84	30 June 2010 / 2011
17 October 2008	15,621	$4.11	30 June 2011
17 October 2008	340,655	$4.82	30 June 2012
29 October 2009	29,831	$2.50	30 June 2011
29 October 2009	69,401	$3.71	30 June 2011 / 2012
29 October 2009	665,216	$4.41	30 June 2013
5 November 2010	34,537	$5.13	30 June 2012 / 2013
5 November 2010	26,832	$5.13	30 June 2013
5 November 2010	550,078	$6.12	30 June 2014

There were no other Rights eligible for issuance under the scheme at 30 June 2011.

35 Share based payments (continued)

The movements in Rights issues in the plan are as follows:

Grant Date	Fair value at grant date	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
2011							
18 November 2005	2.35	10,344	-	-	-	10,344	10,344
30 October 2006	2.80	19,092	-	(6,084)	-	13,008	13,008
30 October 2006	3.44	52,697	-	(37,704)	-	14,993	14,993
31 October 2007	4.44	7,482	-	(1,767)	-	5,715	5,715
31 October 2007	6.87	7,863	-	(3,963)	(1,419)	2,481	2,481
31 October 2007	8.45	222,436	-	(173,044)	(41,949)	7,443	7,443
17 October 2008	2.84	25,025	-	(16,181)	(2,352)	6,492	2,580
17 October 2008	4.11	15,621	-	(11,711)	-	3,910	-
17 October 2008	4.82	323,537	-	-	(2,536)	321,001	-
29 October 2009	2.50	29,831	-	(29,831)	-	-	-
29 October 2009	3.71	69,401	-	(33,585)	(1,119)	34,697	-
29 October 2009	4.41	665,216	-	-	(4,399)	660,817	-
5 November 2010	5.13	-	34,537	-	-	34,537	-
5 November 2010	5.13	-	26,832	-	-	26,832	-
5 November 2010	6.12	-	550,078	-	-	550,078	-
Total		1,448,545	611,447	(313,870)	(53,774)	1,692,348	56,564
Weighted average price		4.96	6.02	6.17	7.56	5.04	3.98

Vesting for the performance period to 30 June 2011 will occur following the test date on 9 August 2011.

Grant Date	Fair value at grant date	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
2010							
18 November 2005	2.35	10,344	-	-	-	10,344	10,344
30 October 2006	2.80	19,092	-	-	-	19,092	19,092
30 October 2006	3.44	310,785	-	(230,119)	(27,969)	52,697	52,697
31 October 2007	4.44	9,569	-	(2,087)	-	7,482	7,482
31 October 2007	6.87	7,863	-	-	-	7,863	-
31 October 2007	8.45	222,436	-	-	-	222,436	-
17 October 2008	2.84	25,025	-	-	-	25,025	-
17 October 2008	4.11	15,621	-	-	-	15,621	-
17 October 2008	4.82	323,537	-	-	-	323,537	-
29 October 2009	2.50	-	29,831	-	-	29,831	
29 October 2009	3.71	-	69,401	-	-	69,401	
29 October 2009	4.41	-	665,216	-	-	665,216	-
Total		944,272	764,448	(232,206)	(27,969)	1,448,545	89,615
Weighted average price		5.10	4.27	3.45	3.44	4.96	3.26

The expiry dates of all grants shown in the tables above are 10 years from the test date.

35 Share based payments (continued)

The weighted average share price at the date of exercise of Rights exercised regularly during the year ended 30 June 2011 was $8.10 (2010: $6.51). The weighted average remaining contractual life of share Rights outstanding at the end of the period was 1.44 years (2010: 1.63 years).

Fair value of Rights granted

The assessed fair value at grant date of Rights granted during the year ended 30 June 2011 was between $5.13 and $6.12 per right (2010: between $2.50 and $4.41). The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the Right, the vesting and performance criteria, the impact of dilution, the non tradeable nature of the Right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the Right.

The following factors and assumptions have been used in determining the fair value of Rights for the issues granted:

Grant Date	Expiry Date	Fair value per Right	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
18/11/2005	Ten years from Test Date	2.35	-	4.15	90%	5.35%	0.00%
30/10/2006	Ten years from Test Date	2.80	-	6.00	90%	5.73%	0.00%
30/10/2006	Ten years from Test Date	3.44	-	6.00	90%	5.73%	0.00%
31/10/2007	Ten years from Test Date	4.44	-	14.68	90%	6.18%	0.00%
31/10/2007	Ten years from Test Date	6.87	-	14.68	90%	6.18%	0.00%
31/10/2007	Ten years from Test Date	8.45	-	14.68	90%	6.18%	0.00%
17/10/2008	Ten years from Test Date	2.84	-	6.30	139%	5.19%	0.00%
17/10/2008	Ten years from Test Date	4.11	-	6.30	139%	5.19%	0.00%
17/10/2008	Ten years from Test Date	4.82	-	6.30	139%	5.19%	0.00%
29/10/2009	Ten years from Test Date	2.50	-	6.05	129%	5.52%	0.00%
29/10/2009	Ten years from Test Date	3.71	-	6.05	129%	5.52%	0.00%
29/10/2009	Ten years from Test Date	4.41	-	6.05	129%	5.52%	0.00%
5/11/2010	Ten years from Test Date	5.13	-	8.60	125%	5.25%	0.00%
5/11/2010	Ten years from Test Date	5.13	-	8.60	125%	5.25%	0.00%
5/11/2010	Ten years from Test Date	6.12	-	8.60	125%	5.25%	0.00%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(d) Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2011 **$'000**	2010 $'000
Rights issued under Performance Rights Plan	**2,906**	2,360
	2,906	2,360

36 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2011 $'000	2010 $'000
Balance sheet		
Total assets	**724,129**	512,785
Current liabilities	**11,822**	7,430
Total liabilities	**11,822**	7,430
Shareholders' equity		
Issued capital	**654,865**	468,460
Share-based payments reserve	**5,975**	5,457
Retained earnings	**51,467**	31,438
	712,307	505,355
Profit or loss for the year	**75,000**	-
Total comprehensive income	**75,000**	-

(b) Guarantees entered into by the parent entity

The parent entity is a guarantor under the Bradken Group - Common Terms Deed Poll and unconditionally and irrevocably guarantees payments due in connection with any financing facilities owed by any Group company.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2011 or 30 June 2010.

(d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any contractual commitments for the acquisition of property, plant or equipment at 30 June 2011 or 30 June 2010.

37 Events occurring after balance sheet date

Bradken acquired Australian and Overseas Alloys Pty Ltd based in Wollongong NSW for a total purchase price of $20m on 7 July 2011. Bradken finalised the acquisition of Norcast Castings Limited based in Canada from Castle Harlan Inc. on 12 July 2011 for a total cost of $202m AUD. Both of these acquisition were funded from existing cash and debt facilities.

Other than the acquisitions stated above no material events have occurred that affect the operations of the Group from the end of the financial period ended 30 June 2011 to the date of issue of this report.

In the directors' opinion:

(a) the financial statements and notes set out on pages 25 to 90 are in accordance with the Corporations Act 2001, including

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of it's performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended Closed Group identified in Note 31 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 31.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors:

Nick Greiner
Chairman

Brian Hodges
Managing Director

Sydney
8 August 2011

PRICEWATERHOUSECOOPERS

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Independent audit report to the members of Bradken Limited

Report on the financial report

We have audited the accompanying financial report of Bradken Limited (the company), which comprises the balance sheet as at 30 June 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Bradken Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.*

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

Auditor's opinion

In our opinion:

(a) the financial report of Bradken Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 12 to 20 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Bradken Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

John Campion

J Campion	Newcastle
Partner	8 August 2011

Bradken®
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7 February 2012

Manager, Company Announcements
Australian Stock Exchange Limited
Level 4
20 Bridge Street
Sydney NSW 2000

Dear Sir

Please find attached the Company's announcement of it's interim results for the 20011/12 year, for immediate release to the market.

Included in this announcement is Appendix 4D and Half Yearly Report for the period to 31 December 2011.

Yours faithfully

Steven Perry
Company Secretary
Encl:

BRADKEN LIMITED

Appendix 4D

Half Year Report Period Ended 31 December 2011

Results for Announcement to the Market

		Percentage Change		$'000
Revenues from ordinary activities	Up	29.1%	to	690,723
Profit (loss) from ordinary activities after tax attributable to members	Up	65.6%	to	43,048
Net Profit (loss) for the period attributable to members	Up	65.6%	to	43,048

Dividends

	Amount per Security	Percentage Franked
Current period:		
Interim Dividend	19.5 cents	100%
Record Date for determining entitlements to the dividend:	17th February 2012	
Date the dividend is payable:	19th March 2012	
Prior corresponding period:		
Interim Dividend	18.5 cents	100%

Net Tangible Assets per Security	
As at 31st December 2011	$2.03
As at 31st December 2010	$2.02

Bradken Limited

ABN 33 108 693 009

Interim report - 31 December 2011

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by Bradken Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Directors' Report

Your directors present their report on the consolidated entity consisting of Bradken Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2011.

Directors

The following persons were directors of Bradken Limited during the whole of the half-year and up to the date of this report:

Name

Nick Greiner
Non Executive Chairman

Brian Hodges
Managing Director

Phil Arnall
Non Executive Director

Eileen Doyle
Non Executive Director

Greg Laurie
Non Executive Director

Vince O'Rourke
Non Executive Director

Peter Richards
Non Executive Director

Commentary on results and review of operations

Financial Overview

	HY12	HY11	Change
NPAT	$43.0m	$26.0m	Up 66%
EBITDA	$100.1m	$90.1m	Up 11%
EBITDA margin	14.8%	16.9%	
Sales revenue	$683.2m	$532.5m	Up 28%
Operating cash flow	$10.7m	$36.2m	Down 70%
Earnings per share	26.2 cents	18.7 cents	Up 7.5 cents
Dividends per share	19.5 cents	18.5 cents	Up 5.4%
LTIFR	4.2	3.4	

Net profit after tax attributable to members for the half-year was $43.0m (2011 $26.0m).

A review of the operations of the Bradken Group during the half-year and the results of those operations is attached in the ASX Release.

Segment revenues and results
A summary of consolidated revenues and results for the half-year by significant industry segments is set out on pages 8 and 9.

Auditors' independence declaration
A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 2.

Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the director's report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order unless otherwise noted.

This report is made in accordance with a resolution of directors.

Brian Hodges
Managing Director

Nick Greiner
Chairman

Sydney
6 February 2012

Auditor's Independence Declaration

As lead auditor for the review of Bradken Limited for the half year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Bradken Limited and the entities it controlled during the period.

John Campion
Partner
PricewaterhouseCoopers

Newcastle
6 February 2012

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	Notes	Half-year 2011 $'000	Half-year 2010 $'000
Revenue from continuing operations		**683,150**	**532,476**
Cost of sales		**(547,508)**	(406,235)
Gross profit		**135,642**	126,241
Other income		**7,573**	2,608
Selling and technical expenses		**(28,463)**	(24,725)
Administration expenses		**(37,327)**	(45,419)
Finance costs		**(16,286)**	(17,556)
Profit before income tax		**61,139**	41,149
Income tax expense		**(18,091)**	(15,105)
Profit for the half-year	3	**43,048**	26,044
Profit attributable to:			
Owners of Bradken Limited		**43,048**	25,992
Non-controlling interest		**-**	52
		43,048	26,044
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share:		**26.2**	18.7
Diluted earnings per share:		**25.9**	18.5

The above consolidated income statement should be read in conjunction with the accompanying notes.

	Notes	Half-year 2011 $'000	Half-year 2010 $'000
Profit for the half-year	3	**43,048**	26,044
Other comprehensive income			
Changes in the fair value of available-for-sale financial assets		**(12,772)**	18,088
Changes in the fair value of cash flow hedges		**(2,317)**	1,040
Exchange differences on translation of foreign operations		**17,377**	(29,657)
Income tax relating to components of other comprehensive income		**4,526**	(5,737)
Other comprehensive income for the half-year net of tax		**6,814**	(16,266)
Total comprehensive income for the half-year		**49,862**	9,778
Total comprehensive income for the half-year is attributable to:			
Owners of Bradken Limited		**49,862**	9,726
Non-controlling interest		**-**	52
		49,862	9,778

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	31 December 2011 $'000	30 June 2011 $'000
Current assets		
Cash and cash equivalents	**30,772**	152,476
Trade and other receivables	**245,215**	258,488
Other receivables and other assets	**379**	357
Inventories	**223,268**	177,547
Derivative financial instruments	**2,426**	-
Total current assets	**502,060**	588,868
Non-current assets		
Receivables	**3,290**	1,622
Other receivables and other assets	**5,439**	5,542
Property, plant and equipment	**493,816**	407,754
Deferred tax assets	**9,457**	11,864
Intangible assets	**354,445**	178,834
Available for sale financial assets	**56,362**	70,054
Total non-current assets	**922,809**	675,670
Total assets	**1,424,869**	1,264,538
Current liabilities		
Payables	**123,441**	127,394
Borrowings	**7,111**	15,031
Current tax liabilities	**1,568**	17,878
Provisions	**51,890**	45,865
Derivative financial instruments	**-**	7,337
Total Current Liabilities	**184,010**	213,505
Non-current liabilities		
Payables	**7,444**	6,970
Borrowings	**490,662**	363,547
Deferred tax liabilities	**32,778**	21,978
Provisions	**8,197**	7,475
Total non-current liabilities	**539,081**	399,970
Total liabilities	**723,091**	613,475
Net assets	**701,778**	651,063
Equity		
Contributed equity	**522,531**	489,243
Reserves	**1,981**	(6,386)
Retained profits	**177,266**	168,206
Capital and reserves attributable to the owners of Bradken Limited	**701,778**	651,063
Total equity	**701,778**	651,063

The above consolidated statement of balance sheet should be read in conjunction with the accompanying notes.

		Attributable to owners of Bradken Limited					
		Contributed Equity	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
	Notes	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2010		**302,838**	**15,402**	**153,270**	**471,510**	**198**	**471,708**
Total comprehensive income for the half-year		**-**	**(16,266)**	**25,992**	**9,726**	**52**	**9,778**
Transactions with owners in their capacity as owners:							
Dividends provided for or paid	4	4,377	-	(29,138)	**(24,761)**	(75)	**(24,836)**
Contributions of equity, net of transaction costs		16	-	-	**16**	-	**16**
Employee share options - value of employee services		-	1,453	-	**1,453**	-	**1,453**
		4,393	1,453	(29,138)	(23,292)	(75)	(23,367)
Balance at 31 December 2010		**307,231**	**589**	**150,124**	**457,944**	**175**	**458,119**
Balance at 1 July 2011		**489,243**	**(6,386)**	**168,206**	**651,063**	**-**	**651,063**
Total comprehensive income for the half-year		-	6,814	43,048	49,862	-	49,862
Transactions with owners in their capacity as owners:							
Dividends provided for or paid	4	33,988	-	(33,988)	**-**	-	**-**
Placement transaction costs		(167)	-	-	**(167)**	-	**(167)**
Deferred tax adjustment for previously booked placement costs		(533)	-	-	**(533)**	-	**(533)**
Employee share options - value of employee services		-	1,553	-	**1,553**	-	**1,553**
		33,288	1,553	(33,988)	853	-	853
Balance at 31 December 2011		**522,531**	**1,981**	**177,266**	**701,778**	**-**	**701,778**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	Notes	Half-year 2011 $'000	Half-year 2010 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**735,290**	607,407
Payments to suppliers and employees (inclusive of goods and services tax)		**(679,364)**	(536,836)
Transaction costs relating to acquisition of subsidiary and acquisition of business		**(920)**	(191)
		55,006	70,380
Interest received		**89**	287
Interest paid		**(16,185)**	(15,598)
Income taxes paid		**(28,179)**	(18,842)
Net cash inflow / (outflow) from operating activities		**10,731**	36,227
Cash flows from investing activities			
Payments for purchase of businesses, net of cash acquired	7	**(367)**	(64,797)
Payments for purchase of subsidiary net of cash acquired		**(189,869)**	-
Payment for property, plant and equipment		**(57,327)**	(27,480)
Payments for design costs		**(3,580)**	-
Payments for available for sale financial assets		**-**	(2,050)
Proceeds from sale of available for sale financial assets		**681**	-
Proceeds from sale of property, plant and equipment		**97**	76
Dividends received		**1,218**	1,035
Net cash inflow / (outflow) from investing activities		**(249,147)**	(93,216)
Cash flows from financing activities			
Proceeds from issue of shares		**19,853**	(75)
Transaction costs from issue of shares		**(167)**	-
Proceeds from borrowings		**314,398**	55,710
Repayment of borrowings		**(184,233)**	(23,991)
Payments of finance lease liabilities		**(4,136)**	(5,032)
Dividends paid to company's shareholders		**(19,853)**	(24,761)
Dividends paid to non-controlling interests in subsidiaries		**-**	(75)
Net cash inflow / (outflow) from financing activities		**125,862**	1,776
Net increase / (decrease) in cash and cash equivalents		**(112,554)**	(55,213)
Cash and cash equivalents at the beginning of the half-year		**143,056**	63,367
Effects of exchange rate changes on cash and cash equivalents		**(1,814)**	(1,777)
Cash and cash equivalents at the end of the half-year		**28,688**	6,377

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of preparation of half-year financial report

This general purpose consolidated financial report for the interim half year reporting period ended 31 December 2011 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by Bradken Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(a) Impact of standards issued but not yet applied by the entity

In December 2009, the AASB issued AASB 9 Financial Instruments which addresses the classification and measurement of financial assets and may affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. The Group has not yet decided when to adopt AASB 9.

2 Segment information

(a) Description of segments

Operating segments are reported in a manner that is generally consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the Managing Director.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment. Segment assets include all assets used by a segment and consist primarily of receivables, inventories and property, plant and equipment, net of related provisions.

Segment revenues, expenses and results include transfers between segments. Sales of scrap between controlled entities are made on an "arm's-length" basis and are eliminated on consolidation. All other transfers are made at variable cost and are eliminated on consolidation.

Industrial is a supplier of cast, machined and fabricated components manufactured to customer specifications or purpose designed to suit customer needs into industries such as Smelters and Refineries, Steel Manufacturers and Sugar Production. Mining Products consists of design, supply and service of wear components for all types of earth moving and mineral processing equipment in the Mining, Mineral Processing and Quarry industries. Rail is a package provider of Freight Rollingstock products and services including freight wagons, bogies, drawgear, inventory management, spare and renewed parts and the maintenance and refurbishment of rollingstock. Engineered Products based in the US is a supplier of cast parts to the Energy, Power, Cement, Industrial and Rail Transport industries specialising in large (greater than 4,500 kg) highly engineered steel castings.

Although the Industrial segment does not meet the quantitative thresholds required by AASB 8, management has concluded that this segment should be reported, as it is closely monitored by the Managing Director.

Responsibility for the Resource business previously included as part of the US based Engineered Products segment has been moved to the Mining Products segment. Management of the Power & Cement business based in the UK, previously reported in "all other segments", is now undertaken by the US based Resources business and as a consequence is reported under the Mining Products segment Responsibility for the Australian based part of the Power & Cement business is now the responsibility of the Australian based Industrial segment and has been moved to that segment. Comparative disclosures have also been amended to reflect these changes.

The Canadian based Norcast business has been included in the Mining Products segment as it is a manufacturer and distributor of mill liner products and complements the Mineral Processing business that is part of that segment.

2 Segment information (continued)

(b) Segment information provided to the Managing Director

The segment information provided to the Managing Director for the reportable segments for the half-year ended 31 December 2011 is as follows:

	Industrial	Mining Products	Rail	Engineered Products	All other segments	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Half-year 2011						
Total segment revenue	49,416	329,874	171,605	159,208	58,130	768,233
Inter-segment revenue	(269)	(31,376)	(6,946)	(3,950)	(42,542)	(85,083)
Revenue from external customers	49,147	298,498	164,659	155,258	15,588	683,150
Gross margin	15,880	99,939	28,054	52,015	9,110	204,998
Half-year 2010						
Total segment revenue	41,523	255,556	109,324	134,858	53,505	594,766
Inter-segment revenue	(1,144)	(19,161)	(3,493)	-	(38,492)	(62,290)
Revenue from external customers	40,379	236,395	105,831	134,858	15,013	532,476
Gross margin	12,936	87,549	28,306	44,726	7,842	181,359
Total segment assets						
At 31 December 2011	79,352	503,912	175,735	302,913	41,278	1,103,190
At 30 June 2011	79,566	407,239	139,665	236,762	37,012	900,244

The Managing Director assesses the performance of each operating segment based on a measure of gross margin. Gross margin is considered the most relevant measure of individual segment results as manufacturing plants all make product for the various segments and transfer product at cost. This measurement basis excludes the allocation of manufacturing variances and overheads from individual manufacturing plants as any allocation would be arbitrarily based.

A reconciliation of standard gross margin to operating profit before income tax is provided as follows:

	Half-year	
	2011	2010
	$'000	$'000
Gross margin	**204,998**	181,359
Fixed manufacturing overheads and other cost of sale adjustments	**(69,356)**	(55,118)
Other income	**7,573**	2,608
Selling and technical expenses	**(28,463)**	(24,725)
Administration expenses	**(37,327)**	(45,419)
Finance costs	**(16,286)**	(17,556)
Profit before income tax	**61,139**	41,149

The amounts provided to the Managing Director with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

3 Profit for the half-year

	Half-year 2011 $'000	Half-year 2010 $'000
Profit for the half-year includes the following items that are unusual by their nature, size or incidence:		
Expenses		
Impairment of Power & Cement goodwill	**-**	8,759
Less: Applicable income tax expense	**-**	-
	-	8,759
Impairment of customer intangibles	**-**	1,452
Less: Applicable income tax expense	**-**	-
	-	1,452
Impairment of UK tax asset	**-**	1,999
Acquisition costs	**920**	1,447
Less: Applicable income tax expense	**(276)**	(434)
	644	1,013

4 Dividends

	Half-year 2011 $'000	Half-year 2010 $'000
Ordinary shares		
Dividends provided for or paid during the half-year	**33,988**	29,138
Dividends not recognised at the end of the half-year		
In addition to the above dividends, since the end of the half-year the directors have declared the payment of an interim dividend of 19.5 cents per fully paid ordinary share (2010 - 18.5 cents), fully franked based on tax paid at 30%. The aggregate amount of the dividend to be paid on 19 March 2012 out of retained profits at 31 December 2011, but not recognised as a liability at the end of the half-year, is	**32,492**	25,833

5 Equity securities issued

	Half-year		Half-year	
	2011 Shares	2010 Shares	**2011 $'000**	2010 $'000
Issues of ordinary shares during the half-year				
Exercise of rights issued under the Bradken Limited Performance Rights Plan - shares issued	**188,673**	305,790	**-**	-
Dividend reinvestment plan issues	**1,940,948**	586,645	**14,136**	4,377
Shares issued in relation to underwriting of dividend	**2,657,773**	-	**19,852**	-
Institutional, Retail and Staff placements in connection with capital raising to acquire the assets of Americast Technologies Inc.	**-**	-	**-**	16
Adjustments to Institutional Placement costs June 2011	**-**	-	**(700)**	-
	4,787,394	892,435	**33,288**	4,393

6 Non-current borrowings

On 29 November 2011 the Group completed a US$200 million US Private Placement in the form of unsecured notes.

The unsecured notes comprised US$50 million of 7 year notes, US$100 million of 10 year notes and US$50 million of 12 year notes. The 7 and 10 year notes were issued with a margin of 2.75% while the 12 year notes were issued with a margin of 2.85% over US Treasuries.

The contractual maturity of the carrying value of the Group's non-current borrowings and undrawn borrowing facilities were as follows:-

	2 to 3 years $'000	4 to 5 years $'000	6 to 7 years $'000	9+ years $'000	Total $'000
31 December 2011					
Non-current borrowings (excluding leases and other financing)	153,655	143,655	49,222	147,667	**494,199**
Undrawn facilities					**256,479**
30 June 2011					
Non-current borrowings (excluding leases and other financing)	213,546	143,655	-	-	**357,201**
Undrawn facilities					**189,447**

7 Business Combinations

Current Period

(i) Australian and Overseas Alloys

On 7 July 2011 Bradken Resources Pty Ltd (a 100% subsidiary of Bradken Limited) acquired 100% of the issued shares of Australian and Overseas Alloys Pty Ltd based in Wollongong NSW.

The total consideration for the acquisition amounted to $20.5m, with funding from existing facilities.

The acquired business has been absorbed into the Mining Products business. It is not practical to disclose revenues and net profit after tax to the Group for the full year as if the acquisition had taken place on 1 July 2011. Acquisition costs for the period were $221,000 and are included in administration expenses in profit or loss.

Details of provisional net assets acquired and provisional goodwill are as follows:

	$'000
Purchase consideration	**20,475**
Provisional fair value of net identifiable assets acquired (refer below)	**3,421**
Provisional goodwill	**17,054**

The provisional goodwill is attributable to the profitability of the acquired business and synergies expected to arise after the acquisition of the business.

The provisional fair value will be finalised and any adjustments disclosed in the Group's financial statements for the year ended 30 June 2012. The provisional fair value of assets and liabilities arising from the acquisition are as follows:

	Provisional fair value $'000
Cash and cash equivalents	1,170
Property, plant and equipment	942
Inventories	521
Receivables	1,490
Payables	(688)
Employee benefits liabilities, including superannuation	(83)
Net deferred tax assets	69
Net identifiable assets acquired	**3,421**

7 Business combination (continued)

(ii) Norcast

On 11 July 2011 Bradken Operations Pty Ltd (a 100% subsidiary of Bradken Limited) acquired 100% of the issued shares of Norcast Wear Solutions Inc. (Norcast) based in Toronto, Canada from Castle Harlan Inc.

The total consideration for the acquisition amounted to $201.6m and was funded from existing facilities.

The acquired business has been absorbed into the Mining Products business. It is not practical to disclose revenues and net profit after tax to the Group for the full year as if the acquisition had taken place on 1 July 2011. Acquisition costs for the period were $571,000 and are included in administration expenses in profit or loss.

Details of provisional net assets acquired and provisional goodwill are as follows:

	$'000
Purchase consideration	**201,631**
Provisional fair value of net identifiable assets acquired (refer below)	**51,851**
Provisional goodwill	**149,780**

The provisional goodwill is attributable to the profitability of the acquired business and synergies expected to arise after the acquisition of the business.

The provisional fair value will be finalised and any adjustments disclosed in the Group's financial statements for the year ended 30 June 2012. The provisional fair value of assets and liabilities arising from the acquisition are as follows:

	Provisional fair value $'000
Cash and cash equivalents	6,182
Property, plant and equipment	38,626
Inventories	18,720
Receivables	23,656
Payables	(22,371)
Employee benefits liabilities, including superannuation	(3,238)
Borrowings	(209)
Current tax liability	(114)
Deferred tax liability	(9,401)
Net identifiable assets acquired	**51,851**

Intangibles other than goodwill have not been identified and valued in the provisional numbers above. However it is expected that a value will be recognised in relation to brands and existing customer contracts.

Prior Period

(i) Other acquisitions in the prior period

Between 28 October 2010 and 19 May 2011 three small acquisitions were made. The assets of Materix Enginerring Pty Ltd and Investment Castings Pty Ltd were acquired on 28 October 2010 and 15 November 2010 respectively. On 19 May 2011 the Bradken Group acquired Wear Protect Systems Pty Ltd and two of it's related companies.

Total provisional consideration for these acquisitions amounted to $29.5m, with funding from existing facilities.

Details of the business combinations were disclosed in Note 29 of the Group's annual financial statements for the year end 30 June 2011.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 3 to 12 are in accordance with the Corporations Act 2001, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Bradken Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of directors.

Brian Hodges
Managing Director

Nick Greiner
Chairman

Sydney
6 February 2012

Independent auditor's review report to the members of Bradken Limited

Report on the half year financial report

We have reviewed the accompanying half-year financial report of Bradken Limited, which comprises the balance sheet as at 31 December 2011 and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Bradken Group (the consolidated entity). The consolidated entity comprises both Bradken Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bradken Limited ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bradken Limited is not in accordance with the *Corporations Act 2001* including:

PricewaterhouseCoopers, ABN 52 780 433 757

PricewaterhouseCoopers Centre, 26 Honeysuckle Drive, PO Box 798, NEWCASTLE NSW 2300

T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* .

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the (company) for the half-year ended 31 December 2011 included on Bradken Limited's web site. The company's directors are responsible for the integrity of the Bradken Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Campion

John Campion — Newcastle

Partner — 6 February 2012

PricewaterhouseCoopers, ABN 52 780 433 757
PricewaterhouseCoopers Centre, 26 Honeysuckle Drive, PO Box 798, NEWCASTLE NSW 2300
T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

Corporate directory

Directors

Nick Greiner
Chairman

Brian Hodges
Managing Director

Phil Arnall

Eileen Doyle

Greg Laurie

Vince O'Rourke

Peter Richards

Company Secretary
Steven Perry
David Chesterfield

Registered Office and Principal Place of Business
2 Maud Street
Mayfield West NSW 2304
Telephone: +61 2 4941 2600
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Share Registry
Link Market Services Limited
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Sydney NSW 2000
Telephone: +61 2 8280 7519
Facsimile: +61 2 9261 8489
Internet: www.linkmarketservices.com.au

Auditors
PricewaterhouseCoopers
26 Honeysuckle Drive
Newcastle NSW 2300

Stock Exchange
The Company is listed on the Australian Stock Exchange. The home exchange is Sydney.

Web site address
www.bradken.com.au

Bradken®
Bradken Limited (ABN 33 108 693 009)
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Phone: +61 (0) 2 4941 2600 Fax: +61 (0) 2 4967 5003
Internet: www.bradken.com.au e-mail: bradken@bradken.com.au

7 August 2012

Manager, Company Announcements
Australian Stock Exchange Limited
Level 4
20 Bridge Street
Sydney NSW 2000

Dear Sir

Please find attached the Company's announcement of it's results for the 2011/12 year, for immediate release to the market.

Included in this announcement is Appendix 4E and the Full Financial Report for the period to 30 June 2012.

Yours faithfully

Steven Perry
Company Secretary
Encl:

BRADKEN LIMITED

Appendix 4E

Full Year Report Period Ended 30 June 2012

Results for Announcement to the Market

	Percentage Change			$'000
Revenues from ordinary activities	Up	26.2%	to	1,456,081
Profit (loss) from ordinary activities after tax attributable to members	Up	48.8%	to	100,533
Net Profit (loss) for the period attributable to members	Up	48.8%	to	100,533

Dividends

	Amount per Security	Percentage Franked
Current period:		
Final Dividend	21.5 cents	100%
Date the dividend is payable:	4 September 2012	
Record Date for determining entitlements to the dividend:	17 August 2012	
Interim Dividend	19.5 cents	100%
Prior corresponding period:		
Final Dividend	21.0 cents	100%
Interim Dividend	18.5 cents	100%

Net Tangible Assets per Security	
As at 30 June 2012	$2.07
As at 30 June 2011	$2.88

Bradken Limited

ABN 33 108 693 009

Full Financial Report - 30 June 2012

Contents

Directors	Nicholas Greiner, AC, B.Ec., MBA *Independent Non-Executive Chairman*
	Brian Hodges, B.Chem.Eng. (Hons) *Managing Director and Chief Executive Officer*
	Phil Arnall, B.Com. *Independent Non Executive Director*
	Eileen Doyle, PhD *Independent Non Executive Director*
	Greg Laurie, B.Com. *Independent Non Executive Director*
	Vince O'Rourke, AM, B.Ec. *Independent Non Executive Director*
	Peter Richards, B.Com. *Independent Non Executive Director*
Secretary and CFO	Steven Perry, B.Com. MBA, CPA
Business unit general managers	**Mining Products and Industrial** Enda Sheridan, B. Materials Eng. MBA
	Rail Stephen Cantwell, B. Business (Operations Research and Information Systems) and Master of Business
	Engineered Products Tom Armstrong, B. Industrial and Systems Eng.
Notice of annual general meeting	The annual general meeting of Bradken Limited **will be held at** Novotel Brisbane Lawson 1 Room, 200 Creek Street, Brisbane QLD **time** 2:30pm **Date** 23 October 2012
Principal registered office in Australia	2 Maud Street Mayfield West NSW 2304 Telephone: +61 2 4941 2600
Share registry	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Telephone: +61 2 8280 7519
Auditor	PricewaterhouseCoopers 26 Honeysuckle Drive Newcastle NSW 2300
Stock exchange listings	Bradken Limited shares are listed on the Australian Stock Exchange. The home exchange is Sydney.
Web site address	www.bradken.com

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Bradken Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2012.

The report has been divided into five sections as follows:

A.	General information	D.	Remuneration report
B.	Corporate governance	E.	Other information
C.	Review of operations		

A. General information

Principal activities

During the year the principal activities of the Group consisted of:

- supply and service of wear components for mining and earthmoving equipment
- supply of equipment and consumables to the mineral processing, quarrying and power markets
- supply of cast, machined and fabricated components and highly engineered steel castings to the energy, industrial and rail transport industries
- manufacture and maintenance of freight rollingstock products
- supply of foundry consumables to the foundry and steelmaking industries

There were no major changes in the nature of the activities of the Group during the period.

Directors

The following persons were directors of Bradken Limited during the whole of the financial year and up to the date of this report unless otherwise noted:

Nick Greiner	Brian Hodges			
Phil Arnall	Eileen Doyle	Greg Laurie	Vince O'Rourke	Peter Richards

Information on directors

Nick Greiner, AC, B.Ec., MBA. *Independent Non-Executive Chairman.* Age 65.

Experience and expertise

Chairman of Bradken Limited since 2004. Extensive experience in corporate roles. Formerly, Premier and Treasurer of New South Wales.

Other current directorships

Chairman of Infrastructure NSW, Chairman of QBE Australia, Chairman of Nuance Global Traders, Deputy Chairman of Champ Private Equity and a director of various private groups.

Former directorships in the last three years

Chairman of Valemus Australia Pty Limited (formerly Bilfinger Berger Australia) , Chairman of Citigroup Australia, Deputy Chairman of Stockland Limited.

Special responsibilities

Member of Human Resources Committee.

Interest in shares

363,789 ordinary shares in Bradken Limited.

Brian Hodges, B.Chem.Eng. (Hons). *Managing Director.* Age 59.

Experience and expertise

Managing Director of the Bradken business since 2001. Formerly General Manager of the Bradken business from 1997. Extensive management and engineering experience in Australia for BHP, Australian National Industries and the Smorgon Steel Group.

Other current directorships

None.

Former directorships in the last three years

None

Special responsibilities

Managing Director.

Interest in shares and rights

2,362,028 ordinary shares in Bradken Limited.

311,655 rights over ordinary shares in Bradken

A. General information (continued)

Phil Arnall, B.Com. *Independent Non-Executive Director.* Age 67.

Experience and expertise

Director of Bradken Limited since 2004. Extensive experience in mining and steel industries in management positions. Held senior management positions with Smorgon Steel Group and Australian National Industries.

Other current directorships

Non-executive director of AJ Lucas Limited and Macquarie Generation.

Former directorships in the last three years

Chairman of Ludowici Limited

Special responsibilities

Member of Audit and Risk Committee
Member of Human Resources Committee.

Interest in shares

437,749 ordinary shares in Bradken Limited.

Eileen Doyle, PhD *Independent Non-Executive Director.* Age 57.

Experience and expertise

Director of Bradken Limited since 1 July 2011. Over 30 years of experience in the materials and water industries in Australia, including senior executive roles in BHP, Hunter Water and CSR. A founding Director of OneSteel Limited and board member for 10 years and Chairman of Port Waratah Coal Services Pty Ltd for 11 years.

Other current directorships

Non-executive director of Boral Group Limited and GPT Group Limited. Chairman of the Hunter Valley Research Foundation and a board member of the CSIRO.

Former directorships in the last three years

Director of Onesteel Limited, Ross Human Directions Limited and Steel and Tube Limited (NZ).

Special responsibilities

Member of Audit and Risk Committee
Member of Human Resources Committee.

Interest in shares

6,850 ordinary shares in Bradken Limited.

Greg Laurie, B.Com. *Independent Non-Executive Director.* Age 70.

Experience and expertise

Director of Bradken Limited since 2005. Extensive experience in manufacturing and distribution industries. Formerly Finance Director of Crane Group Limited and CFO of Rheem Australia Limited.

Other current directorships

Independent non-executive director of Nick Scali Limited and various private groups.

Former directorships in the last three years

None.

Special responsibilities

Chairman of Audit and Risk Committee.

Interest in shares

46,651 ordinary shares in Bradken Limited.

Vince O'Rourke, AM, B.Ec. *Independent Non-Executive Director.* Age 76.

Experience and expertise

Director of Bradken Limited since 2004. Extensive experience in the rail transport industry, 10 years as Chief Executive of Queensland Rail.

Other current directorships

Chairman of the Workplace Health and Safety Board of Queensland, Rail Innovation Australia Pty Ltd, a non-executive director of Yancoal Pty Ltd and White Energy Company Ltd (formerly South Australian Coal Pty Ltd) and a board member of Mater Health Services Brisbane Limited.

Former directorships in the last three years

Director of Felix Resources Limited, Taylor Rail Pty Ltd and Chairman of the Co-operative Research Centre for Rail Engineering and Technologies.

Special responsibilities

Chairman of Human Resources Committee.

Interest in shares

93,522 ordinary shares in Bradken Limited.

A. General information (continued)

Peter Richards, B.Com. *Independent Non-Executive Director.* Age 53.

Experience and expertise

Appointed Director of Bradken Limited in 2009. Over 30 years of business and international experience with global companies including BP plc, Wesfarmers Ltd and most recently as CEO of Dyno Nobel Limited.

Other current directorships

Non-executive director and chairman of Kangaroo Resources Limited and Minbos Resources Limited and a non-executive director of Emeco Holdings Limited, Sedgman Limited, Norfolk Group Limited and NSL Consolidated Limited.

Former directorships in the last three years

None

Special responsibilities

Member of Audit and Risk Committee.

Interest in shares

37,279 ordinary shares in Bradken Limited.

Company Secretary

The Company Secretary is Mr Steven Perry, B.Com, MBA, CPA. Mr Perry joined the Group in 1990 and progressed through a number of financial roles most recently spending nine years as Commercial Manager Mining Products. As Company Secretary and Chief Financial Officer (CFO) Mr Perry is responsible for finance, treasury, taxation, investor relations, investments, audit and insurance.

Meetings of directors

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2012, and the number of meetings attended by each director were:

Director	Full meetings of directors *		Audit and Risk Committee meetings		Human Resources Committee meetings	
	A	**B**	**A**	**B**	**A**	**B**
Nick Greiner	10	10	**	**	4	4
Brian Hodges	10	10	**	**	**	**
Phil Arnall	10	10	3	4	3	4
Eileen Doyle	9	10	4	4	3	4
Greg Laurie	10	10	4	4	**	**
Vince O'Rourke	10	10	**	**	4	4
Peter Richards	10	10	4	4	**	**

A Number of meetings attended
B Number of meetings held during the time the director held office during the period
* Bradken Limited does not have a fully constituted Nominations Committee, however, as and when required the full Board participates as the Nominations Committee in order to fulfill its corporate governance responsibilities
** = Not a member of the relevant committee

B. Corporate governance

The Company and the Board are committed to achieving and demonstrating the highest standards of corporate governance. This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in 2010 unless otherwise stated.

The relationship between the Board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives.

A description of the Group's main corporate governance practices is set out below and on the Company's web site. All these practices, unless otherwise stated, were in place for the entire year.

The board of directors

The Board operates in accordance with broad principles set out in its charter which is available from the corporate governance information section of the Company's website at www.bradken.com. The charter details the Board's composition and responsibilities.

B. Corporate governance (continued)

Board composition

The charter states:

- the Board comprise both executive and non-executive directors with a majority of non-executive directors, and one executive director being the Managing Director / Chief Executive Officer
- in recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairman must be an independent non-executive director, the majority of the Board must be independent of management and all directors are required to bring independent judgement to bear in their Board decision making
- the Chairman is elected by the full Board and is required to meet regularly with the Managing Director
- the Company is to maintain a mix of directors from different backgrounds with complementary skills and experience both nationally and internationally with a majority of directors having knowledge of the Group or related industries and/or financial expertise
- the Board is required to undertake an annual board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy
- reviewing and approving the business plans, the annual budget and financial plans including available resources and capital expenditure initiatives
- overseeing and monitoring:
  - organisational performance and the achievement of the Group's strategic goals and objectives
  - compliance with the Company's Code of Conduct (see page 9)
  - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Group's auditors
- appointment, performance assessment and, if necessary, removal of the Managing Director
- ratifying the appointment and/or removal and contributing to the performance assessment of the members of the senior management team including the CFO / Company Secretary
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the Group
- overseeing the operation of the Group's system for compliance and risk management.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading "Information on directors". As at the date of this report the Board of the Company comprises six non-executive directors, all of whom are considered independent under the principles set out below, and the Managing Director.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the Board is conducive to effective discussion and efficient decision-making.

Directors' independence

An independent director is a director who is not a member of management (a non-executive director) and who:

- holds less than 5% of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than 5% of the voting shares of the Company
- has not within the last three years been employed in an executive capacity by the Company or another Group member
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another Group member
- is not a material supplier to or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer
- has no material contractual relationship with the Company or another Group member other than as a director of the Company
- has not served on the Board of the Group for a period which could materially interfere with the Director's ability to act in the best interests of the Group
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Group.

The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

B. Corporate governance (continued)

Term of office

The Board Charter recommends a maximum period of 12 years service as a director, subject to re-elections every year by rotation such that 1/3 of the directors are subject to re-election each year

The Company's Constitution specifies the tenure of the Managing Director is limited to that of his Executive Office.

Commitment

The Board has established a framework for the management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds nine scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Managing Director and Company Secretary. Standing items include the Managing Director’s report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

To assist in the execution of its responsibilities, the Board has established a Human Resources Committee and an Audit and Risk Committee. These Committees have written mandates and operating procedures, which are reviewed on a regular basis.

The commitments of non-executive directors are considered by the Board prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time to discharge their responsibilities to the Company.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group.

Where the Board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

There were no director related entity transactions with companies of the Group.

Independent professional advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice from a suitably qualified adviser at the Group's expense. Prior written approval from the Chairman is required, but this will not be unreasonably withheld.

Performance assessment

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. Management are invited to contribute to this appraisal process. The results and any action plans are documented. The most recent assessment was undertaken in August 2011.

The Chairman meets privately with each director to discuss this assessment and their individual situation.

Corporate reporting

The Managing Director and the CFO have made the following certifications to the Board:

- that the Group’s financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Group's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Human Resources Committee and the Audit and Risk Committee. Each is comprised entirely of non-executive directors. The committee structure and membership is reviewed on an annual basis.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company website. All matters determined by the committees are submitted to the full board as recommendations for board decisions.

Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Bradken Limited does not have a fully constituted Nominations Committee, however, as and when required the full Board participates as the Nominations Committee in order to fulfill its corporate governance responsibilities in regard to:

- Board appointments and performance;
- Directors’ induction program;

B. Corporate governance (continued)

- Committee membership;
- Other relevant matters.

The full Board undertakes the functions of a Nominations Committee as described in the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

Human Resources Committee

The Human Resources Committee consists of the following non-executive directors:

Vince O'Rourke (Chairman)

Eileen Doyle

Nick Greiner

Phil Arnall

Details of these directors attendance at Committee meetings are set out in the directors' report on page 4.

The Human Resources Committee operates in accordance with its charter which is available on the Company website. The Human Resource Committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for the executive directors, other senior executives and non-executive directors.

The Human Resources Committee's terms of reference include:

- reviewing and approving remuneration policies including proposed short and long term incentives, superannuation, recruitment, redundancy/termination and other major personnel practices that will attract, motivate and retain high quality employees
- recommending to the Board the total employment cost of the Managing Director and approving the total employment cost of senior executives reporting to that position. The total cost being base pay, short and long term incentives (including shares and options), superannuation and other benefits
- recommending to the Board the entitlements under incentive plans for the Managing Director, including linkages to specific goals and objectives. Approve entitlements for senior executives reporting to that position
- recommending to the Board any service contracts for the Managing Director and approve service contracts for senior executives reporting to that position
- reviewing the personal development plans for senior executives to maintain a pool of capable senior management
- reviewing the development of management succession planning to ensure ongoing professional management of the Group and the development of the individuals
- reviewing the Group's development of human resource plans, training, workplace safety and environment systems designed to enhance corporate and individual performance
- overseeing the planning and development of business continuity, crisis management and quality and safety management systems
- undertaking any special projects delegated by the Board or deemed necessary by the Committee

Further information on directors' and executive remuneration is set out in the directors' report under the heading "Remuneration Report".

Audit and Risk Committee

The Audit and Risk Committee consists of the following non-executive directors:

Greg Laurie (Chairman)

Phil Arnall

Eileen Doyle

Peter Richards

Details of these directors attendance at Committee meetings are set out in the directors' report on page 4.

The Audit and Risk Committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the businesses and markets in which the Group operates.

The Audit and Risk Committee operates in accordance with a charter which is available on the Company website. The main responsibilities of the Audit and Risk Committee are to:

- review and assess the integrity of the financial statements of the Group
- assess the suitability of the Group's accounting policies and processes
- ensure a process is in place to assess the adequacy and effectiveness of the Group's internal control processes
- act as an interface between the Board and the external auditors
- liaise with the external auditors on the conduct of the external audit
- review reports on the Group's financial statements and other matters, prepared by the external auditors

B. Corporate governance (continued)

- review any proposed provision of non-audit services by the external auditors
- ensure the independence of the external auditors
- consider the competence and assess the performance of the external auditors
- overview the effectiveness of the internal audit function
- ensure there is an appropriate process for the identification and management of business risks
- ensure a process is in place to monitor the Group's compliance with relevant laws and regulations
- review and monitor related party transactions and assess their propriety
- report to the Board on matters relevant to the Committee's role and responsibilities
- make recommendations to the Board in relation to the appointment, removal and remuneration of the external auditor.

The Audit and Risk Committee meets with the external and internal auditors on a regular basis. It reviews its performance and effectiveness periodically and reviews its charter and makes recommendations to the Board on its charter annually.

In fulfilling its responsibilities, the Audit and Risk Committee:

- receives regular reports from management, the external auditors and the internal auditors
- assesses the suitability of the Group's financial accounting policies, practices and procedures and the compliance with regulatory requirements
- reviews the processes the CEO and the CFO have in place to support their certifications to the Board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- meets separately with the external and internal auditors at least twice a year without the presence of management
- provides the external and internal auditors with a clear line of direct communication at any time to either the Chairman of the Audit and Risk Committee or the Chairman of the Board.

The Audit and Risk Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

The Group policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. PricewaterhouseCoopers was appointed as the external auditor in 2005. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 26 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee.

The external auditor is required to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Risk assessment and management

Bradken is committed to managing risk to protect it's people, the environment, Group assets, the community and it's reputation. Bradken operates an Enterprise Risk Management process consistent with international standards to manage it's business risk. This risk-based system helps the Group operate effectively and efficiently, achieve business objectives, ensure reliable reporting and comply with applicable laws and regulations.

The Board implements this policy by overseeing the establishment and implementation of the risk management system through the Audit and Risk Committee, reviewing the effectiveness of the Group's implementation of that system.

Not all aspects of risk management can be formalised and Bradken places considerable reliance on the skill, experience and judgement of its people to make risk based decisions within the policy framework, and to communicate openly on all risk related matters.

The environment, health and safety management system (EHSMS)

The Group recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the EHSMS was established to facilitate the systematic identification of environmental and OH&S issues and to ensure they are managed in a structured way. This system has been operating for a number of years and allows the Group to:

- progressively implement a corporate environmental management system that is independently certified to international standards ISO 14001 at all major sites.
- implement the Bradken 21 Step Safety plan at all sites
- monitor its systems compliance with all relevant OH&S and environmental legislation
- continually assess and improve the impact of its operations on the environment
- encourage employees to actively participate in the management of environmental and OH&S issues
- work with trade associations representing the Group's businesses to raise standards

B. Corporate governance (continued)

- use energy and other resources as efficiently as practicable, and
- encourage the adoption of similar standards by the Group's principal suppliers and contractors.

Recently acquired operations are currently implementing environmental management systems. The Group continues to implement projects that improve the Group's environmental performance and to address any community concerns in the vicinity of manufacturing sites. Information on compliance with significant environmental regulations is set out in section E of this report on page 21.

Code of conduct

All directors, managers and employees are expected to act with the utmost integrity, objectivity and in compliance with the letter and spirit of the law and Group policies, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

The Group has advised each director, manager and employee that they must comply with the Group's Whistleblower Policy. The Policy may be viewed on the Company's website, and it covers the following:

- encouraging employees to report any behaviour that may be dishonest, fraudulent, corrupt, illegal, in breach of Commonwealth or State Legislation, unethical, improper, unsafe or any other behaviour that may cause financial or non-financial loss to the Group or would be otherwise detrimental to the interests of the Group
- ensuring that the Group complies with its obligations to protect the reporter of any such behaviour.

The Company also has a Securities Trading Policy (available on the Company's website) which details the insider trading provisions of the Corporations Act 2001. In summary, trading of the Company's shares is restricted to a period of six weeks after the release of the Group's half-year and annual results to the Australian Stock Exchange (ASX), the Annual General Meeting of the Company, at any time a prospectus or similar disclosure document has been lodged with ASIC and is open for acceptances and at such other times as the Board of Directors declare trading permissible. These windows are not available to individuals that posess inside information.

Continuous disclosure and shareholder communication

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that, a reasonable person would expect, may have a material effect on the price of the Company's securities, notifying each matter to the ASX, posting them on the Company's website, and issuing media releases. Full details of the policy are available on the Company's website.

In summary, the Continuous Disclosure Policy operates as follows:

- the Chairman, the Managing Director and the Company Secretary comprise the Disclosure Committee. The responsibilities of the Disclosure Committee include:
  - ensuring the Company complies with its disclosure obligations
  - determining and authorising what information can or should be disclosed to the market
  - liaising with the Board where necessary
- the Company Secretary is responsible for all communications with the ASX. Such continuous disclosure matters are advised to the ASX by the required time, and all senior executives must follow a 'Continuous Disclosure Discovery' process, which involves monitoring all areas of the Group's internal and external environment
- all announcements made to the market, and related information including information provided to analysts or the media during briefings, are placed on the Company's website after they are released to the ASX
- the full text of notices of meetings and associated explanatory material are placed on the Company's website.

All shareholders can elect to receive a copy of the Group's annual report. In addition the Company seeks to provide opportunities for shareholders to participate through electronic means. All Company announcements, media briefings, details of Company meetings and press releases are available on the Company's website. All of the above information is made available on the Company's website within one day of public release, and is emailed to all shareholders who lodge their email contact details with the Company. Information on lodging email addresses with the Company is available on the Company's website.

C. Review of operations

Financial Overview

	2012	2011	Change
NPAT	$100.5m	$67.6m	Up 49%
EBITDA	$220.4m	$189.4m	Up 16%
EBITDA margin	15.2%	16.5%	
Sales revenue	$1451.3m	$1147.5m	Up 26%
Operating cash flow	$121.2m	$32.4m	Up 274%
Earnings per share	60.5 cents	47.6 cents	Up 12.9 cents
Dividends per share	41.0 cents	39.5 cents	Up 3.8%

A review of the operations of the Bradken Group during the year and the results of those operations is attached in the ASX Release.

Dividends

Dividends paid to members during the financial year were as follows:

	2012 $'000	2011 $'000
Final dividend for the year ended 30 June 2011 of 21.0 cents (2010: 21.0 cents) per fully paid share paid on 19 September 2011 (2010: 13 September 2010)	**33,988**	29,138
Interim dividend for the year ended 30 June 2012 of 19.5 cents (2011: 18.5 cents) per fully paid share paid 19 March 2012 (2011: 21 March 2011)	**32,492**	25,833
	66,480	54,971

In addition to the above dividends, since the end of the financial year the directors have declared the payment of a fully franked final dividend of $36,255,000 (21.5 cents per fully paid ordinary share) to be paid on 4 September 2012 out of retained profits at 30 June 2012.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were the:	2012 $'000
(a) increase in contributed equity of $49,319,000 (from $489,243,000 to $538,562,000) as a result of:	
■ Dividend reinvestment plan issues 1,940,948 shares @ $7.28 each	14,136
■ Shares pursuant to an underwritten dividend reinvestment plan issue 2,657,773 shares @ $7.47 each	19,853
■ Dividend reinvestment plan issues 2,004,576 shares @ $8.00 each	16,030
■ Adjustments to equity raisings costs in prior period	(167)
■ Adjustments to deferred tax assets for equity raisings in prior period	(533)
	49,319

Matters subsequent to the end of the financial year

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Likely developments and expected results of operations

Further disclosure on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

D. Remuneration report

The remuneration report is set out under the following main headings:

(a) Principles used to determine the nature and amount of remuneration
(b) Details of remuneration
(c) Service agreements
(d) Share-based compensation
(e) Additional information

The information provided under headings (a) to (d) includes the remuneration disclosures that are required under the Accounting Standard AASB 124 *Related Party Disclosures* . These disclosures have been transferred from the financial report and have been audited. The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001* .

(a) *Principles used to determine the nature and amount of remuneration*

The objective of the Group's executive reward framework is to ensure reward for performance whilst maintaining competitiveness with the market and appropriateness for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives.

Alignment to participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an “at risk” bonus provided in the form of cash, while the long-term incentive (LTI) is provided as rights over ordinary shares of Bradken Limited under the rules of the Performance Rights Plan (PRP).

No key management personal has entered into any arrangement to limit the exposure or risk related to their remuneration.

Role of the Human Resources Committee

The Human Resources Committee is a committee of the board. It is primarily responsible for making recommendations to the board on:

- non-executive director fees
- remuneration levels of managing director, executive directors and other key management personnel
- the over-arching executive remuneration framework and incentive plans.

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the company. In doing this, the Human Resources Committee seeks advice from independent remuneration consultants.

The Corporate Governance Statement provides further information on the role of this committee.

Use of remuneration consultations

External consultants AON Hewitt were contracted on 23 March 2012 to provide remuneration advice to the Human Resources Committee. In the 2012 financial year AON Hewitt provided remuneration recommendations as defined in section 9B of the Corporations Act 2001 and was paid $26,500 for these services. AON Hewitt have confirmed the above recommendations were made free from undue influence by members of the Group's key management personnel.

D. Remuneration report (continued)

(a) *Principles used to determine the nature and amount of remuneration (continued)*

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- AON Hewitt was engaged by, and reported directly to, the chair of the Human Resources Committee. The agreement for the provision of remuneration consulting services was executed by the chair of the Human Resources Committee under delegated authority on behalf of the board;
- The report containing the remuneration recommendations was provided by AON Hewitt directly to the chair of the Human Resources Committee; and
- AON Hewitt was permitted to speak to management throughout the engagement to understand Group processes, practices and other business issues and obtain management perspectives. However, AON Hewitt was not permitted to provide any member of management with a copy of their draft or final report that contained the remuneration recommendations.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

In addition to providing remuneration recommendations, AON Hewitt also provided advice on other aspects of the remuneration of the Group's employees.

Voting and comments made at the company's 2011 Annual General Meeting

Bradken Limited received more than 78% of "yes" votes on its remuneration report for the 2011 Financial year.

The company did not receive any specific feedback at the AGM. Throughout the year the company did receive correspondence from a group that was recommending superannuation proxy voting that had voted against the remuneration report at the 2011 AGM. Discussion centred around providing more disclosure of the methods of calculating the short term incentive bonus. No other correspondence was received.

Non executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board also uses the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market.

(i) Directors' fees

The current base remuneration was last reviewed with effect from 1 October 2011. Total aggregate remuneration for all non-executive directors, last voted upon by shareholders in October 2011, is not to exceed $1,200,000 per annum and actual amounts payable to individual directors are determined after considering advice from external advisors and with reference to fees paid to other non-executive directors of comparable companies.

Directors' base fees are presently $130,000 (2011: $125,000) per annum. The Chairman' fee is currently $280,000 (2011: $270,000) per annum. Non-executive directors do not receive performance related remuneration. Directors' fees cover all main board activities and membership of any board committee.

(ii) Non-Executive Director Share Acquisition Plan

Non-executive directors may elect to have a percentage of their annual fixed directors' fees provided in shares under the Non-Executive Director Share Acquisition Plan (NED plan). Participation in the NED plan is voluntary.

Executive pay

In addition to base pay, at risk short term salary and benefits including superannuation , key management personnel are invited to participate in a long term (3 year) incentive scheme. The combination of these comprise total remuneration.

(i) Base pay and benefits

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion and includes contributions to employee superannuation funds.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

Each year the Board sets the job goals for the Managing Director. The senior executives job goals are set and managed by the Managing Director. The job goals are focused on the growth of the business and generally include measures relating to the Group, the relevant business unit, and the individual, and include financial, people, customer, strategy and risk measures. The measures are chosen to directly align the individual's reward to the goals of the Group and to its strategy and performance.

D. Remuneration report (continued)

(a) *Principles used to determine the nature and amount of remuneration (continued)*

(ii) At risk short term salary

At the end of the financial year an assessment is made of the actual performance of the Group, the relevant business unit and the individual targets set at the beginning of the financial year. A percentage of the at risk short term salary is awarded depending on performance. At risk short term salary is not awarded where there is no year on year growth for the financial year.

The at risk short term salary is paid wholly on actual improvement in profitability. The value of the at risk short term salary payable is set within a range of 30% to 60% of the executive's total cash base remuneration depending on the position held by the executive. In calculating the at risk short term salary the growth in year on year NPAT is calculated and where applicable the EBITDA of the executive's business. To achieve the full at risk short term salary value a growth of 15% on the previous year profitability must be achieved.

The Human Resources Committee recommends the at risk short term salary to be paid to the Managing Director for approval by the Board. For other senior executives the Managing Director recommends the at risk short term salary to be paid, and seeks approval from the Human Resources Committee.

(iii) Long-term incentives - Performance Rights Plan

The Group's long-term incentive, the Performance Rights Plan, focuses on rewarding for long term growth and the retention of key people. Information on the Performance Rights Plan is set out on page 16.

The long term incentive (LTI) is paid wholly on relative total shareholder return (TSR) performance over a 3 year period. The initial rights are provided based on a set range of 30% to 50% of the executive's total cash base remuneration depending on the position held by the executive. No rights vest to the executive if Bradken's TSR over a 3 year period is below 50% of the index and no re-testing occurs.

(b) *Details of remuneration*

The key management personnel of Bradken Limited and the Group are the directors of Bradken Limited (see page 2), the Chief Financial Officer and the General Managers and Chief Operating Officer of the Bradken business units who report directly to the Managing Director. The executives are:

- Andrew Allen - *General Manager Corporate Development (appointed 1 September 2011)*
- Tom Armstrong - *Chief Operating Officer Engineered Products*
- Bruce Arnott - *CFO and Company Secretary (retired 30 November 2011)*
- Stephen Cantwell - *General Manager Rail (commenced 1 July 2011)*
- Steven Perry - *CFO and Company Secretary (appointed 1 December 2011)*
- Enda Sheridan - Executive *General Manager Mining and Industrial Products*

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Bradken Limited and the Bradken Limited Group are set out in the following tables.

The values in column (A) of each table below are remuneration as defined in Australian Accounting Standard AASB2 *Share-based payment*. This consists of share rights. These values are calculated based on a Black Scholes valuation of the rights in the year in which they are granted and are amortised over the performance period to which they relate, which is typically a 3 year period. The degree to which performance conditions will be met is unclear until the end of the relevant performance periods. There is no certainty performance conditions will be met and there is therefore no direct correlation of these values to the remuneration received by the executive in any period.

The values in column (B) of each table below shows the value of the rights that were granted to the executive for the performance periods 1 July 2009 to 30 June 2012 (2012) and 1 July 2008 to 30 June 2011 (2011). For the performance period 1 July 2009 to 30 June 2012 the performance conditions were not met and no rights are eligible to vest for that period. The values are based on the share price on 7 August 2011.

D. Remuneration report (continued)

Key management personnel and other executives of the Group

2012	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payment (A)	Share-based payment (B)
Name	Cash salary and fees $	At risk short term salary $	Non-monetary benefits $	Super-annuation $	Long service leave accrued $	Share Rights accrued in period $	Share Rights to vest for period $
Non-executive directors							
Nick Greiner - *Chairman*	277,500	-	-	-	-	-	NIL
Phil Arnall	128,750	-	-	-	-	-	NIL
Eileen Doyle	118,119	-	-	10,631	-	-	NIL
Greg Laurie	118,119	-	-	10,631	-	-	NIL
Vince O'Rourke	128,750	-	-	-	-	-	NIL
Peter Richards	118,119	-	-	10,631	-	-	NIL
Sub-total non-executive directors	889,357	-	-	31,893	-	-	NIL
Executive directors							
Brian Hodges	1,276,276	392,901	8,631	50,693	38,288	329,234	NIL
Other key management							
Andrew Allen	374,456	80,028	3,605	33,701	11,234	81,537	NIL
Tom Armstrong	381,202	125,904	-	18,089	-	148,800	NIL
Bruce Arnott*	296,737	-	3,031	37,630	8,902	68,067	NIL
Stephen Cantwell	450,344	43,742	-	37,344	13,510	53,967	NIL
Steven Perry **	261,744	51,971	-	25,100	7,852	27,473	NIL
Enda Sheridan	575,399	126,069	2,409	25,276	17,262	151,410	NIL
***** Total key management compensation (group)**	4,505,515	820,615	17,676	259,726	97,048	860,488	NIL

* Bruce Arnott retired on 30 November 2011, values reported are for the period 1 July to 30 November 2011.

** Steven Perry was appointed Chief Financial Officer on 1 December 2011. Before this appointment he was Senior Commercial Manager of the Group's Mining business. The amounts shown above include all Mr Perry's remuneration during the reporting period. Amounts received as Chief Financial Officer were Cash Salary $192,661, Bonus $51,971, Superannuation $17,339, Long Service Leave $5,780 and Share Rights $22,585.

*** The payment of at risk short term salary has significantly reduced when compared to the previous year. In addition no share rights vested for the period. This is reflective of the quantum of year on year growth achieved and the current share price performance of Resource related stocks.

2011	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payment (A)	Share-based payment (B)
Name	Cash salary and fees $	At risk short term salary $	Non-monetary benefits $	Super-annuation $	Long service leave accrued $	Share Rights accrued in period $	Share Rights to vest for period $
Non-executive directors							
Nick Greiner - *Chairman*	262,500	-	-	-	-	-	NIL
Phil Arnall	123,750	-	-	-	-	-	NIL
Greg Laurie	113,532	-	-	10,218	-	-	NIL
Vince O'Rourke	93,750	-	-	30,000	-	-	NIL
Peter Richards	113,532	-	-	10,218	-	-	NIL
Sub-total non-executive directors	707,064	-	-	50,436	-	-	NIL
Executive directors							
Brian Hodges	1,137,264	819,000	6,343	50,391	34,118	427,463	273,908
Other key management							
Andrew Allen	380,716	83,152	2,723	13,419	11,421	91,815	50,798
Tom Armstrong	372,232	345,444	-	18,397	-	118,146	64,605
Bruce Arnott	524,262	298,612	4,519	38,637	15,728	131,747	74,903
Enda Sheridan	534,505	258,996	1,838	26,826	16,035	190,171	116,940
***** Total key management compensation (group)**	3,656,043	1,805,204	15,423	198,106	77,302	959,342	581,154

D. Remuneration report (continued)

(c) *Service agreements*

Remuneration and other terms of employment for the Managing Director and key management personnel required to be disclosed under the *Corporations Act 2001* are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including, but not limited to, motor vehicles and participation, when eligible, in the Bradken Performance Rights Plan. Other major provisions of the agreements relating to remuneration are set out below.

Name	Term of Agreement	* Base salary including superannuation	** Termination Benefit
Brian Hodges, *Managing Director*	Ongoing commencing 2 July 2004	$1,360,800	6 months base salary
Andrew Allen, *General Manager Corporate Development* (*appointed 1 September 2011*)	Ongoing commencing 1 September 2011	$415,760	1 month base salary
Bruce Arnott, *Chief Financial Officer and Company Secretary* (until 30 November 2011)	Agreement terminated on retirement 30 November 2011	$242,622 (for the 5 months to 30 November 2011)	-
Steven Perry, *Chief Financial Officer and Company Secretary* (*appointed 1 December 2011*)	Ongoing commencing 1 December 2011	$360,000	3 months base salary
Tom Armstrong, *Chief Operating Officer Engineered Products*	Ongoing commencing 25 October 2006	$391,352	12 months base salary
Stephen Cantwell, *General Manager Rail* (*commenced 1 July 2011*)	Ongoing commencing 1 July 2011	$454,500	6 months base salary
Enda Sheridan, *Executive General Manager Mining and Industrial Products*	Ongoing commencing 17 June 2009	$613,111	3 months base salary

* Base salaries quoted are as at 30 June 2012; they are reviewed annually by the Human Resources Committee.

** Termination benefits are payable on early termination by the company, other than for gross misconduct; unless otherwise indicated, they are equal to the base salary for the remaining term of the agreement.

D. Remuneration report (continued)

(d) *Share-based compensation*

Non-Executive Director Share Acquisition Plan

Non-executive directors may elect to have a proportion of their quarterly directors' fees provided as shares under the NED Plan. Participation in the plan is voluntary.

Non-executive directors are not able to sell or otherwise dispose of the shares until the earliest of 10 years after acquisition or when the non-executive director ceases to be a director of the Company (except in very limited circumstances). During this period the shares are subject to a holding lock.

No shares were issued under the NED plan in the financial period.

Rights

The Performance Rights Plan (PRP) is the Company's long-term incentive (LTI) scheme for selected key executives. The Managing Director recommends the list of executives who are entitled to participate in this scheme and seeks approval of the list from the Human Resources Committee which is then ratified by the Board. Under the PRP, eligible executives may be granted Performance Rights (each being a right to acquire a share, subject to the satisfaction of exercise conditions) on terms and conditions determined by the Board and as documented in the PRP Plan rules and Trust Deed. If the exercise conditions are satisfied, the Performance Rights may be exercised and the shares issued and delivered to the executive. The Board may impose restrictions on the disposal of the shares and implement procedures to enforce the restrictions.

The rules of the PRP provide that the Board may determine a price that is payable to exercise a Performance Right, or that no amount is payable by the executive upon exercise of the Right.

If any additional persons become entitled to participate in the PRP and their participation requires approval under Chapter 10 of the Listing Rules, they will not participate in the PRP until shareholder approval is received pursuant to Listing Rule 10.14.

Mr Brian Hodges, being the only Executive Director of the Company, is the only Director entitled to participate in the PRP. If any other Director is to participate in the PRP, the Company will seek shareholder approval required by the Listing Rules.

The performance conditions are based on the relative total shareholder return (TSR) of the Company measured against other companies in the ASX Small Industrials Index during the performance period. TSR measures the total return on investment of a share taking into account capital appreciation, capital return and dividend income.

The TSR performance conditions in relation to the grants issued are:

Target	Percentage of Rights available in given year to vest
The Company's TSR does not meet performance of the median Company in ASX Small Cap	0
The Company's TSR equals or exceeds performance of the median Company in ASX Small Cap	50
The Company's TSR ranked in third quartile of companies in ASX Small Cap	Pro rata between 50 and 100
The Company's TSR ranked in fourth quartile of companies in ASX Small Cap	100

In assessing whether the performance hurdles have been met, the Human Resources Committee receives independent data from an investment bank which provides both the Company's TSR from previous financial years and that of the ASX Small Industrials Index. The Company's performance against the hurdle is then determined with each Company in the ASX Small Industrials Index and Bradken being ranked in order of TSR in results from previous financial years. The Company's percentile ranking is determined by aggregating the weighting within the ASX Small Industrials Index (based on market capitalisation) of each company ranked below Bradken. The method of assessment was chosen as it provides the Committee with an objective means of measuring the Company's performance against its peer group. Once vested the performance rights remain exercisable for a period of ten years or the final test date depending on the conditions of the grant.

Dividends, changes in share price, and return of capital are included in the TSR calculation which is the only performance criteria assessed for the PRP scheme. The terms and conditions of each grant of Rights affecting remuneration in the previous, this or future reporting periods are as follows:

D. Remuneration report (continued)

(d) *Share-based compensation (continued)*

Grant Date	Exercise price	Fair value per Right	Performance Period	Test Date (date vested and exercisable)	Expiry Date
17 October 2008 *	$0.00	$4.82	1 Jul 08 to 30 Jun 11	Result announcement y/e 11	Ten years from Test Date
29 October 2009 *	$0.00	$3.71	1 Jul 09 to 30 Jun 11	Result announcement y/e 11	Final Test Date
29 October 2009 *	$0.00	$4.41	1 Jul 09 to 30 Jun 12	Result announcement y/e 12	Final Test Date
5 November 2010 *	$0.00	$5.13	1 Jul 10 to 30 Jun 12	Result announcement y/e 12	Final Test Date
5 November 2010 *	$0.00	$6.12	1 Jul 10 to 30 Jun 13	Result announcement y/e 13	Final Test Date
7 October 2011 *	$0.00	$4.76	1 Jul 11 to 30 Jun 14	Result announcement y/e 12	Final Test Date
7 October 2011 *	$0.00	$4.76	1 Jul 11 to 30 Jun 14	Result announcement y/e 13	Final Test Date
7 October 2011 *	$0.00	$4.76	1 Jul 11 to 30 Jun 14	Result announcement y/e 14	Final Test Date

** Changes to the Performance Rights Plan*

New entrants to the scheme are provided with a transition to the 3 year plan.

Rights granted under the PRP carry no dividend or voting rights.

Details of Rights over ordinary shares in the Company provided as remuneration to each director of Bradken Limited and each of the key management personnel are set out below. When exercisable, each Right is convertible into one ordinary share of Bradken Limited. Further information on the Rights is set out in note 37 to the financial statements.

Number of Rights granted and vested and Shares provided during the year on exercise of Performance Rights

Details of Rights granted and vested and ordinary shares in the Company provided as a result of the exercise of Performance Rights to the Managing Director of Bradken Limited and each of the key management personnel and other executives of the Group required to be disclosed under the *Corporations Act 2001* are set out below.

Name	**Number of Rights granted during the year**	**Number of Rights vested during the year**	**Number of ordinary shares issued on exercise of Rights during the year**
Directors of Bradken Limited			
Brian Hodges	**84,863**	**36,521**	**0**
Other key management personnel of the Group			
Andrew Allen	**20,742**	**6,773**	**6,773**
Tom Armstrong	**19,320**	**8,614**	**8,614**
Bruce Arnott	**0**	**9,987**	**9,987**
Stephen Cantwell	**28,344**	**0**	**0**
Steven Perry	**6,762**	**3,143**	**3,143**
Enda Sheridan	**38,235**	**15,592**	**15,592**

No amounts were payable on the exercise of Rights during the period.

D. Remuneration report (continued)

(d) *Share-based compensation (continued)*

The assessed fair value at grant date of Rights granted to the individuals is allocated equally over the financial periods in which the Rights may vest, and the amount is included in the remuneration tables above. Fair values at grant date are determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the Right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the Right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the Right.

Principles used to determine the nature and amount of remuneration: relationship between remuneration and Company performance

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year.

Details of share remuneration: Rights

For each grant of Rights included in the tables on page 14, pages 17 to 18 and page 20, the percentage of the available Right that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the performance criteria is set out below. The Rights vest over a period up to three years, provided the vesting conditions are met (see page 16). Rights not vested when performance hurdles are not met do not carry forward to future periods.

D. Remuneration report (continued)

(e) *Additional information*

Name	Rights: Financial year granted	Vested in prior years % *	Vested in current year % *	Forfeited (A) %	Financial years in which Rights may vest	Minimum total value of grant yet to vest (B) $	Maximum total value of grant yet to vest (C) $
Andrew Allen	2012	-	-	-	30/06/2015	-	107,651
	2011	-	-	-	30/06/2014	-	105,243
	2010	-	-	-	30/06/2013	-	111,175
	2009	-	57	43	30/06/2012	-	-
Tom Armstrong	2012	-	-	-	30/06/2013	-	100,271
	2011	-	61	-	30/06/2013	-	-
	2010	-	-	-	30/06/2014	-	100,401
	2009	20	12	-	30/06/2012	-	134,613
Bruce Arnott	2012	-	-	-	30/06/2015	-	-
	2011	-	-	-	30/06/2014	-	151,180
	2010	-	-	-	30/06/2013	-	156,655
	2009	-	57	43	30/06/2012	-	-
Stephen Cantwell	2012	-	-	-	30/06/2015	-	88,261
	2012	-	-	-	30/06/2014	-	29,422
	2012	-	-	-	30/06/2013	-	29,422
Brian Hodges	2012	-	-	-	30/06/2015	-	440,439
	2011	-	-	-	30/06/2014	-	414,629
	2010	-	-	-	30/06/2013	-	572,877
	2009	-	57	43	30/06/2012	-	-
Steven Perry	2012	-	-	-	30/06/2015	-	35,095
	2011	-	-	-	30/06/2014	-	35,681
	2010	-	-	-	30/06/2013	-	49,300
	2009	-	57	43	30/06/2012	-	-
Enda Sheridan	2012	-	-	-	30/06/2015	-	198,440
	2011	-	-	-	30/06/2014	-	188,558
	2010	-	-	-	30/06/2013	-	255,654
	2009	-	57	43	30/06/2012	-	-

A= The % of rights that failed to vest in the period as the performance criteria were not met.

B= The minimum value of Rights yet to vest is nil as the performance criteria may not be met and consequently the Right may not vest.

C= The maximum value of rights yet to vest is not determinable as it depends on the market price of shares of Bradken Limited on the Australian Stock Exchange at the date the right is exercised. The maximum values presented above are based on the closing share price at 30 June 2012 of $5.19.

Share based compensation: Rights

Further details relating to rights are set out below.

Name	A Remuneration consisting of Rights	B Value at grant date $	C Value at exercise date $	D Value at lapse date $
Andrew Allen	13.9%	98,732	46,056	37,703
Tom Armstrong	22.1%	91,963	58,575	-
Bruce Arnott	16.4%	-	67,912	55,590
Stephen Cantwell	9.0%	134,917	-	-
Brian Hodges	15.7%	403,948	-	203,295
Steven Perry	7.3%	32,187	66,606	17,498
Enda Sheridan	16.9%	181,999	106,026	86,798

A= The percentage of the value of remuneration consisting of Rights, based on the value at grant date set out in column B. Remuneration percentage refers to the AASB 2 Share-based payment values reported in the table in section (b) above and does not correlate to the remuneration received by the executive in the period.

B= The value at grant date calculated in accordance with AASB 2 *Share-based payment* of Rights granted during the year as part of remuneration.

C= The value at exercise date of Rights that were granted as part of remuneration and were exercised during the year.

D= The value at lapse date of Rights that were granted as part of remuneration and that lapsed during the year.

D. Remuneration report (continued)

(e) *Additional information (continued)*

Shares under Performance Rights

Unissued shares of Bradken Limited under Performance Right at the date of this report are as follows:

Date Rights granted	Expiry date	Exercise price	Number of shares under right
18 November 2005	Ten years from Test Date	Nil	10,344
30 October 2006	Ten years from Test Date	Nil	11,789
30 October 2006	Ten years from Test Date	Nil	14,993
31 October 2007	Ten years from Test Date	Nil	4,944
17 October 2008	Ten years from Test Date	Nil	116
17 October 2008	Ten years from Test Date	Nil	49,211
29 October 2009	Final Test Date	Nil	13,071
29 October 2009	Final Test Date	Nil	649,045
5 November 2010	Final Test Date	Nil	23,988
5 November 2010	Final Test Date	Nil	10,446
5 November 2010	Final Test Date	Nil	543,929
7 October 2011	Final Test Date	Nil	24,304
7 October 2011	Final Test Date	Nil	24,311
7 October 2011	Final Test Date	Nil	17,877
7 October 2011	Final Test Date	Nil	570,795

All Rights expire on the earlier of their expiry date, their exercise, their failure to meet exercise conditions or termination of the employee’s employment. In addition, the ability to exercise the Rights is conditional on the Group achieving certain performance hurdles related to relative total shareholder return to the ASX Small Cap Industrial index.

Further details are included in the Remuneration Report above.

Shares issued on exercise of Rights

The following ordinary shares of Bradken Limited were issued during the year ended 30 June 2012 on exercise of Rights granted under the Performance Rights Plan. No further shares have been issued since that date.

Date Rights granted	Exercise price of right	Number of shares issued
31 October 2007	0.00	9,924
17 October 2008	0.00	131,307
29 October 2009	0.00	20,507
5 November 2010	0.00	26,935

Shares purchased on exercise of Rights

The following ordinary shares of Bradken Limited were bought on market during the year ended 30 June 2012 on exercise of Rights granted under the Performance Rights Plan No further shares have been bought since that date.

Date Rights granted	Exercise price of right	Number of shares purchased
17 October 2008	0.00	7,420

E. Other information

Environmental regulation

The Group's operations are subject to significant environmental regulation under both Commonwealth and State legislation governing, amongst other things, noise, air emissions, the use, handling, and disposal of hazardous substances and waste. The Group has devoted and will continue to devote resources to environmental compliance and management in each of the jurisdictions in which it operates.

An environmental management system is in place which complies with the international standard ISO14001 in major sites in Australia the UK and New Zealand, while the US and China operate under local legal compliance requirements equivalent to ISO14001. It is Group policy to be environmentally proactive and to adopt practices that minimise adverse environmental impacts and to communicate and provide appropriate feedback on the Group's environmental performance. In accordance with the Group's environmental policy, procedures and goals have been established aimed at ensuring:

- all manufacturing and engineering sites have developed, implemented, and maintain environmental management systems meeting the requirements of ISO14001
- the environmental management systems are integrated with the existing business systems
- zero notifiable incidents and zero justified neighbourhood complaints
- continuing reduction of industrial waste disposal costs by continual improvement of working practices, such as cleaner production and improved recycling

Based upon the results of inquiries made, the Board is not aware of any significant breaches during the period covered by this report nor does it consider the Group is subject to any presently known material environmental liabilities. Under agreements with local authorities capital expenditure is required at some Australian sites to reduce dust and odour emissions.

Greenhouse gas and energy data reporting requirements

In Australia, the energy related requirements have corporate thresholds and Bradken group companies are subject to the reporting requirements of the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007 and site thresholds for the National Pollutant Inventory NEPM.

The Energy Efficiency Opportunities Act 2006 requires the group to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action the group intends to take as a result. The group continues to meet its obligations under this Act.

The National Greenhouse and Energy Reporting Act 2007 requires the group to report its annual greenhouse gas emissions and energy use. The group has implemented systems and processes for the collection and calculation of the data required and submitted its 2009/10 report to the Greenhouse and Energy Data Officer on 27th October 2010.

Internationally energy related reporting requirements have facility thresholds. In the US, the Atchison facility will be reporting on energy as its emissions exceed the US reporting threshold. The USEPA has extended the deadline for reporting 2010 data to 30th Sept 2011. In the UK, the Bradken facilities complied with their respective Climate Change Agreements which finished in September 2010. There are no current energy reporting requirements applicable in Canada, China or New Zealand.

Certain Bradken facilities in Australia (NPI), Canada (NPRI) and USA (TRI) report energy use in the National Pollutant Inventory(NPI or NPRI) Reports or Toxic Release Inventory Reports (TRI) along with the associated emissions.

Insurance of officers

During the year, the Company paid a premium to insure the directors and secretaries of the Company and its Australian-based controlled entities, the general managers of each of the businesses, all executive officers of the Group and of any related body corporate against a liability incurred by such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify any officer of the Group or of any related body corporate against a liability incurred by any such officer.

Proceedings on behalf of the Company

No person has applied to the court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of these proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or Group are important.

Details of the amounts paid to auditors for audit and non-audit services provided during the year are set out on the following page.

E. Other information (continued)

The Board of directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2012	2011
	$	$
Assurance services		
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under *Corporations Act 2001*	**444,234**	423,538
Related practices of PricewaterhouseCoopers Australian firm	**619,044**	177,885
Non-PricewaterhouseCoopers audit firm (Deloittes NZ)	**28,351**	16,103
Non-PricewaterhouseCoopers audit firm (Grant Thornton US)	**249,564**	290,431
Total remuneration for audit services	**1,341,193**	907,957
2. Other assurance services		
PricewaterhouseCoopers Australian firm:		
Accounting services	**25,856**	-
Related practices of PricewaterhouseCoopers Australian firm		
Accounting services	**23,100**	41,778
Non-PricewaterhouseCoopers audit firm (Fubang China)		
Capital verification services	**2,404**	428
Total remuneration for other assurance services	**51,360**	42,206
Total remuneration for assurance services	**1,392,553**	950,163
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services, including review of Company income tax returns	**454,225**	215,675
Related practices of PricewaterhouseCoopers Australian firm	**136,149**	13,442
Non-PricewaterhouseCoopers audit firm (Deloittes NZ)	**11,307**	5,706
Non-PricewaterhouseCoopers audit firm (KPMG US)	**430,417**	349,502
Non-PricewaterhouseCoopers audit firm (Ernst & Young China)	**-**	12,156
Non-PricewaterhouseCoopers audit firm (Tianrui China)	**685**	382
Non-PricewaterhouseCoopers audit firm (Zheng Da foe China)	**-**	183
Non-PricewaterhouseCoopers audit firm (PT The Practice Indonesia)	**860**	-
Non-PricewaterhouseCoopers audit firm (WK Wilton South Africa)	**3,771**	-
Total remuneration for taxation services	**1,037,414**	597,046

E. Other information (continued)

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 24.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewatehouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001.*

This report is made in accordance with a resolution of the directors:

Nick Greiner
Chairman

Brian Hodges
Managing Director

Sydney
6 August 2012

Auditor's Independence Declaration

As lead auditor for the review of Bradken Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Bradken Limited and the entities it controlled during the period.

John Campion
Partner
PricewaterhouseCoopers

Newcastle
6 August 2012

PricewaterhouseCoopers, ABN 52 780 433 757
PricewaterhouseCoopers Centre, 26 Honeysuckle Drive, PO Box 798, NEWCASTLE NSW 2300
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Contents

This financial report covers the consolidated entity consisting of Bradken Limited and its subsidiaries. The financial report is presented in the Australian currency.

Bradken Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

2 Maud Street

Mayfield West NSW 2304

A description of the nature of the consolidated entity's principal activities and a review of operations is included on page 2 and page 10 of the directors' report, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 6 August 2012. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.bradken.com.au.

	Notes	2012 $'000	2011 $'000
Revenue from continuing operations	5	**1,456,081**	1,153,848
Cost of sales		**(1,154,016)**	(879,266)
Gross profit		**302,065**	274,582
Other income	5	**2,017**	-
Selling and technical expenses		**(57,803)**	(50,573)
Administration expenses		**(76,681)**	(88,154)
Finance costs	5	**(33,785)**	(37,549)
Share of net profit of associates accounted for using the equity method		**2,826**	-
Profit before income tax		**138,639**	98,306
Income tax expense	6	**(38,106)**	(30,694)
Profit for the year		**100,533**	67,612
Profit is attributable to:			
Owners of Bradken Limited		**100,533**	67,561
Non-controlling interests		**-**	51
		100,533	67,612

	Notes	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per ordinary share: (cents per share)	36	**60.5**	47.6
Diluted earnings per ordinary share: (cents per share)	36	**59.8**	47.1

The above consolidated income statement should be read in conjunction with the accompanying notes.

	Notes	2012 $'000	2011 $'000
Profit for the year		**100,533**	67,612
Other comprehensive income			
Changes in the fair value of available-for-sale financial assets	23(a)	**(33,061)**	19,875
Changes in the fair value of cash flow hedges	23(a)	**(3,382)**	43
Exchange differences on translation of foreign operations	23(a)	**16,850**	(36,154)
Actuarial (losses) / gains on retirement benefit obligations	23(b)	**(8,364)**	2,346
Income tax relating to components of other comprehensive income	6(d)	**10,933**	(5,975)
Other comprehensive income for the year net of tax		**(17,024)**	(19,865)
Total comprehensive income for the year		**83,509**	47,747
Total comprehensive income for the year is attributable to:			
Owners of Bradken Limited		**83,509**	47,696
Non-controlling interests		**-**	51
		83,509	47,747

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Notes	**2012 $'000**	2011 $'000
Current assets			
Cash and cash equivalents	7	**101,892**	152,476
Receivables	8	**220,911**	258,488
Other receivables and other assets	9	**402**	357
Inventories	10	**308,113**	177,547
Current tax assets		**7,150**	-
Derivative financial instruments	11	**-**	-
Total current assets		**638,468**	588,868
Non-current assets			
Receivables	8	**1,873**	1,622
Other receivables and other assets	9	**5,323**	5,542
Property, plant and equipment	12	**533,180**	407,754
Deferred tax assets	13	**17,973**	11,864
Intangible assets	14	**362,428**	178,834
Available for sale financial assets	15	**-**	70,054
Investments accounted for using the equity method	16	**38,521**	-
Total non-current assets		**959,298**	675,670
Total assets		**1,597,766**	1,264,538
Current liabilities			
Payables	17	**203,245**	127,394
Borrowings	19	**6,047**	15,031
Current tax liabilities		**6,198**	17,878
Provisions	18	**48,159**	45,865
Derivative financial instruments	11	**3,650**	7,337
Total Current Liabilities		**267,299**	213,505
Non-current liabilities			
Payables	17	**7,438**	6,970
Borrowings	19	**543,924**	363,547
Deferred tax liabilities	21	**38,158**	21,978
Provisions	18	**21,497**	7,475
Total non-current liabilities		**611,017**	399,970
Total liabilities		**878,316**	613,475
Net assets		**719,450**	651,063
Equity			
Contributed equity	22	**538,562**	489,243
Reserves	23(a)	**(13,007)**	(6,386)
Retained earnings	23(b)	**193,895**	168,206
Capital and reserves attributable to owners of Bradken Limited		**719,450**	651,063
Total equity		**719,450**	651,063

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

		Attributable to owners of Bradken Limited					
		Contributed Equity	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
	Notes	$'000	$'000	$'000	$'000	$'000	$'000
Total equity at the beginning of the financial year 1 July 2010		**302,838**	**15,402**	**153,270**	**471,510**	**198**	**471,708**
Profit for the year		**-**	**-**	**67,561**	**67,561**	**51**	**67,612**
Other comprehensive income		**-**	**(22,211)**	**2,346**	**(19,865)**	**-**	**(19,865)**
Total comprehensive income for the year as reported in the 2011 financial statements		**-**	**(22,211)**	**69,907**	**47,696**	**51**	**47,747**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs	22	153,807	-	-	**153,807**	-	**153,807**
Dividends provided for or paid	23	30,210	-	(54,971)	**(24,761)**	(75)	**(24,836)**
Transactions with non-controlling interests		-	(95)	-	**(95)**	(174)	**(269)**
Employee share rights - value of employee services	37	-	2,906	-	**2,906**	-	**2,906**
Employee share rights - transfer on exercise of options	37	2,388	(2,388)	-	**-**	-	**-**
		186,405	423	(54,971)	131,857	(249)	131,608
Balance at 30 June 2011		**489,243**	**(6,386)**	**168,206**	**651,063**	**-**	**651,063**
Profit for the year		**-**	**-**	**100,533**	**100,533**	**-**	**100,533**
Other comprehensive income		**-**	**(8,660)**	**(8,364)**	**(17,024)**	**-**	**(17,024)**
Total comprehensive income for the year		**-**	**(8,660)**	**92,169**	**83,509**	**-**	**83,509**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs and tax	22	(700)	-	-	**(700)**	-	**(700)**
Dividends provided for or paid	23	50,019	-	(66,480)	**(16,461)**	-	**(16,461)**
Employee share rights - value of employee services	37	-	2,039	-	**2,039**	-	**2,039**
		49,319	2,039	(66,480)	(15,122)	-	(15,122)
Balance at 30 June 2012		**538,562**	**(13,007)**	**193,895**	**719,450**	**-**	**719,450**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,557,394**	1,153,431
Payments to suppliers and employees (inclusive of goods and services tax)		**(1,351,233)**	(1,059,739)
Transaction costs relating to acquisition of subsidiary and acquisition of business		**(1,017)**	(309)
		205,144	93,383
Interest received		**369**	684
Interest paid		**(31,976)**	(30,374)
Income taxes paid		**(52,296)**	(31,316)
Net cash (outflow) inflow from operating activities	34	**121,241**	32,377
Cash flows from investing activities			
Payment for property, plant and equipment		**(122,887)**	(59,766)
Payment for purchase of subsidiary, net of cash acquired	30	**(195,792)**	(36,378)
Payment for businesses	30	**(382)**	(65,144)
Payment for available for sale financial assets	15	**(671)**	(5,290)
Proceeds from sale of available for sale financial assets	15	**681**	-
Proceeds from sale of property, plant and equipment		**4,418**	94
Payment for capitalised design costs		**(9,077)**	(3,166)
Net cash (outflow) inflow from investing activities		**(323,710)**	(169,650)
Cash flows from financing activities			
Proceeds from issue of shares		**19,853**	173,286
Transaction costs from issue of shares		**(167)**	(2,852)
Payment of finance lease liabilities		**(10,409)**	(9,311)
Repayment of borrowings		**(297,493)**	(47,869)
Proceeds from borrowings		**485,595**	146,406
Dividends paid to company's shareholders	24	**(36,314)**	(39,833)
Dividends paid to non-controlling interests in subsidiaries		**-**	(125)
Dividends received		**1,725**	1,449
Payments for shares bought back		**-**	(2,388)
Net cash (outflow) inflow from financing activities		**162,790**	218,763
Net increase (decrease) in cash and cash equivalents		**(39,679)**	81,490
Cash and cash equivalents at the beginning of the year		**143,056**	63,367
Effects of exchange rate changes on cash and cash equivalents		**(1,658)**	(1,801)
Cash and cash equivalents at the end of the year	7	**101,719**	143,056
Financing arrangements	19		
Non-cash financing and investing activities	35		

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Contents to the notes to the consolidated financial statements

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistenty applied to all years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Bradken Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Bradken Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRSs

The consolidated financial statements of the Bradken Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

New and amended standards adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bradken Limited ("company" or "parent entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. Bradken Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Associates

Associates are all entities over which the group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The group's investment in associates includes goodwill identified on acquisition (refer to note 32).

The group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

1 Summary of significant accounting policies (continued)

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(iii) Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Bradken Limited.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director.

(d) Foreign currency translation

(i) Functional currency and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Bradken Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

1 Summary of significant accounting policies (continued)

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed the significant risks and rewards to the buyer.

(ii) Contract revenue

Contract revenue and expenses are recognised on an individual contract basis using the percentage of completion method when the stage of contract completion can be reliably determined, costs to date can be clearly identified, and total contract revenue and costs to complete can be reliably estimated.

The stage of completion is measured by reference to an assessment of total labour hours and other costs incurred to date as a percentage of costs for each contract.

Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that the cost will be recovered, revenue is recognised to the extent of costs incurred. Where it is probable that a loss will arise on a contract, the excess of total costs over revenue is recognised immediately as an expense.

(iii) Interest income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

(iv) Sale of non-current assets

The gain or loss on disposal of non-current assets is included as other income or expense at the date control passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(v) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(vi) Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(m).

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

1 Summary of significant accounting policies (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Bradken Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Investment allowances

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 12). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term, if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Lease income from finance leases where the group is a lessor is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period (note 9). The respective lease receivable is included in the balance sheet.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

1 Summary of significant accounting policies (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Receivables

Trade receivables are recognised initially at fair value and subsequently, less provision for doubtful debts. Trade receivables are normally due for settlement no more than 30 days from the date of recognition. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the value of estimated future cash flows. The amount of the provision is recognised in the income statement.

(l) Inventories

(i) Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate portion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on either standard or weighted average basis. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale such as expenses of marketing, selling and distribution to customers.

(ii) Construction and service contract work in progress

Construction and service contract work in progress is carried at cost plus profit recognised to date based on the value of work completed, less progress billings and less provision for foreseeable losses. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under other liabilities.

Cost includes variable and fixed costs directly related to specific contracts, those costs related to contract activity in general which can be allocated to specific contracts on a reasonable basis and other costs specifically chargeable under the contract. Costs expected to be incurred under penalty clauses and rectification provisions are also included.

(iii) Stock Obsolescence

All inventory items are reviewed on a regular basis during the year and a provision raised for products which have not been sold for one year unless the review indicates that a sale is likely.

1 Summary of significant accounting policies (continued)

(m) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 8).

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group’s management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

Fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

1 Summary of significant accounting policies (continued)

Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(n) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 11. Movements in the hedging reserve in shareholders' equity are shown in note 23.

The full fair value of a hedging derivative is classified as a non current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within other income or other expense together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to the interest rate risk. The gain or loss relating to the ineffective portion is recognised in the income statement within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within "finance costs". The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within "sales". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or a non-financial liability), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

1 Summary of significant accounting policies (continued)

(o) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. Assets are depreciated or amortised from the date of acquisition, or in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Buildings	35 to 66 years
Plant and equipment	1 to 20 years
Patterns	1 to 40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(p) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 1(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4).

(ii) Patents, trademarks and brand names

Patents are carried at fair value at acquisition and amortised on a straight line basis over the life of the patent. Trademarks are carried at their fair value at acquisition less impairment losses and amortised over 5 years with amortisation calculated on a straight line basis. Brand names are not amortised if they continue to be used and add value. Discontinued brand names are amortised over a period of 10 years as they are phased out.

(iii) Customer relationships

Customer relationships acquired as part of a business acquisition are recognised separately from goodwill. The customer relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on their estimated useful lives, which currently vary from 10 to 20 years.

(iv) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 10 years.

(q) Payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

1 Summary of significant accounting policies (continued)

(r) Borrowings

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(s) Borrowing costs

Borrowing costs are expensed as incurred. Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs in connection with arrangement of borrowings, foreign exchange differences net of hedged amounts on borrowings, including trade creditors and lease finance charges.

(t) Provisions

A provision is recognised in the accounts when there is a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(i) Warranties

Products are warranted against faulty workmanship and in some cases these are specifically extended to periods up to seven years or hours used depending on the type of product and contract in place. Rectification claims are settled in cash or by repair of the item, at the discretion of the Group. Provision for warranty claims are made for claims received and claims expected to be received in relation to sales made prior to reporting date adjusted for specific information arising from internal quality assurance processes.

(u) Employee Benefits

(i) Wages, salaries, annual leave, sick leave, rostered days off and non-monetary benefits

Liabilities for annual leave, accumulating sick leave and rostered days off, including non monetary benefits, expected to be settled within 12 months of the reporting date are recognised in current provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Liabilities for unpaid wages and salaries up to the reporting date are recognised in current payables.

(ii) Long service leave

The provision for long service leave represents the present value of the expected future cash outflows to be made resulting from employees' services provided to reporting date.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in current provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iv) Employee share and rights plans

Share based compensation benefits are provided to employees and directors via the Performance Rights Plan ('PRP') and the Non-Executive Director Share Acquisition Plan ('NEDSAP') respectively.

The fair value of Rights granted under the PRP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the Rights. The fair value of Rights granted are measured using the Black & Scholes Pricing Model, taking into account the terms and conditions attached to the Rights. The amount recognised as an expense is adjusted to reflect the actual number of Rights that vest except where forfeiture is due to market related conditions.

The fair value of shares issued under the NEDSAP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date.

1 Summary of significant accounting policies (continued)

(v) Retirement benefit obligations

All employees of the Group are entitled to benefit from various superannuation or pension plans on retirement, disability or death. The Group operates two defined benefit retirement plans, one in the United States and the other in Canada. The United States plan is closed to new members and covers hourly employees hired before May 10, 1993 at one of our US subsidiaries. The Canadian plan is currently active at one of our Canadian subsidiaries for hourly employees but closed on March 1, 2010 to salaried employees. Benefits for the defined benefit plan are determined on years of credited service. The Group also operates a number of defined contribution plans which receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the funds assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on future payments which may arise from membership of the fund to the reporting date calculated annually by independent actuaries. Consideration is given to the experience of employee departures and periods of service.

(vi) Healthcare reserves

The Group's U.S. operations primarily self-insure employee healthcare expenses. Reserves are based on historical claims experience.

(v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or rights are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or rights for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(y) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

(z) Rounding of amounts

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

1 Summary of significant accounting policies (continued)

(aa) Amended accounting standards and UIG interpretations

Certain amended accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's and the parent entity's assessment of the impact of these amended standards and interpretations is set out below.

AASB 9 *Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and* AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013* but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. There will be no impact on the group's accounting for its available-for-sale financial assets as the Group's investments are not held for trading.

Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. There will be no impact on the group's accounting for available-for-sale debt investments, as the new requirements only affect the accounting for available-for-sale debt investments that are designated at fair value through profit or loss and the group does not have any such investments. There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The group has not yet decided when to adopt AASB 9.

* In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

AASB 10 *Consolidated Financial Statements,* AASB 11 *Joint Arrangements,* AASB 12 *Disclosure of Interests in Other Entities,* revised AASB 127 *Separate Financial Statements and* AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation.,However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments. Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments. The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. [Alternatively: "The group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements.] However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

1 Summary of significant accounting policies (continued)

AASB 119 - *Revised AASB 119 Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* (effective 1 January 2013)
In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. While the group does not expect the new standard to have a significant impact, it has yet to perform detailed analysis. The Group has not yet decided when to adopt the new standard.

AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)
In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)
In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures , to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001 . While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

There are no other standards that are not yet effective and that are expected to have a material impact on the group in the current or future reporting periods on foreseeable future transactions.

(ab) Parent entity financial information

The financial information for the parent entity, Bradken Limited, disclosed in note 38 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Bradken Limited.

(ii) Tax consolidation legislation

Bradken Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Bradken Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Bradken Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The amounts receivable/payable are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(iii) Financial guarantees

The parent entity is a guarantor under the Bradken Group - Common Terms Deed Poll and unconditionally and irrevocably guarantees payments due in connection with any financing facilities owed by any Group company.

2 Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used as hedging instruments, not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which is it exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risk and ageing analysis for credit risk.

Risk management is carried out centrally by the CFO and finance function under policies approved by the Board of Directors.

(a) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims at maintaining flexibility in funding by keeping committed credit lines available.

Management monitors forecasts of the Group's liquidity on the basis of expected cash flow. See note 19(e) for details of available facilities.

The tables below analyse the Group's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. There is no liquidity risk at the Parent entity level.

Group - 2012	Less than 1 year $'000	Between 1 and 3 years $'000	Between 3 and 5 years $'000	Between 5 and 8 years $'000	Over 8 years $'000
Non-derivatives					
Payables	203,245	-	-	-	-
Borrowings (excluding finance leases)	26,946	264,050	145,868	73,224	162,180
Finance leases liabilities	4,845	5,672	524	-	-
Derivatives					
Net settled interest rate swaps and caps	3,650	-	-	-	-

Group - 2011	Less than 1 year $'000	Between 1 and 3 years $'000	Between 3 and 5 years $'000	Between 5 and 8 years $'000	Over 8 years $'000
Non-derivatives					
Payables	127,394	-	-	-	-
Borrowings (excluding finance leases)	32,290	227,181	195,977	-	-
Finance leases liabilities	4,043	5,241	1,085	20	-
Derivatives					
Net settled interest rate swaps and caps	7,337	-	-	-	-

The Group enters into forward exchange contracts to hedge foreign currency denominated receivables and also to manage foreign currency denominated inventory and capital items.

Refer to note 11(a)(ii) for the maturity profiles of the Group's existing foreign exchange hedge contracts.

Refer to note 8(f) for receivables denominated in foreign currencies.

(c) Market risk

(i) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets and the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest-rate-risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate-risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate-risk. Group policy is to fix the rates for between 30% and 70% of its borrowings.

The Group manages its cash flow interest-rate-risk by using floating-to-fixed interest rate swaps and interest rate caps. Such instruments have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

2 Financial risk management (continued)

(c) Market risk (continued)

Refer to note 19 for further details generally of the Group's borrowings.

A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table at note 2(c)(iv).

(ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. It is the policy of the Group to enter into forward foreign exchange contracts to cover all foreign currency exposure other than those effectively covered within the natural hedging pool.

Refer to note 8 and 17 for receivables and payables denominated in foreign currencies.

Unrealised gains or losses on outstanding foreign exchange contracts are taken to the Group's income statement on a monthly basis.

A sensitivity analysis of foreign exchange risk on the Group's financial assets and liabilities is provided in the table at note 2(c)(iv).

(iii) Price risk

The Group is exposed to commodity price risk through the purchase of steel and various alloys.

(iv) Summarised sensitivity analysis

The following table summarises the pre-tax sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk. These sensitivities are prior to the offsetting impact of hedging instruments.

2012		Interest rate risk				Foreign exchange risk			
	Carrying	-100 bps		+100 bps		-10%		+10%	
	amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets									
Cash and cash equivalents	101,892	(1,018)	(1,018)	1,018	1,018	4,042	4,042	(4,042)	(4,042)
Accounts receivable	202,922	-	-	-	-	12,342	12,342	(12,342)	(12,342)
Receivables under finance leases	5,725	-	-	-	-	-	-	-	-
Financial liabilities									
Derivatives - cashflow hedges	(3,409)	-	494	-	(493)	-	-	-	-
Derivatives - FVTPL	(241)	-	-	-	-	546	546	(974)	(974)
Trade payables	(158,762)	-	-	-	-	(9,320)	(9,320)	9,320	9,320
Borrowings	(549,971)	5,500	5,500	(5,500)	(5,500)	(32,850)	(32,850)	32,850	32,850
Total increase/(decrease)		4,482	4,976	(4,482)	(4,975)	(25,240)	(25,240)	24,812	24,812

2011		Interest rate risk				Foreign exchange risk			
	Carrying	-100 bps		+100 bps		-10%		+10%	
	amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets									
Cash and cash equivalents	152,476	(1,520)	(1,520)	1,520	1,520	14,756	14,756	(14,756)	(14,756)
Accounts receivable	196,546	-	-	-	-	6,860	6,860	(6,860)	(6,860)
Receivables under finance leases	5,899	-	-	-	-	-	-	-	-
AFS investments	70,054	-	-	-	-	-	-	-	-
Financial liabilities									
Derivatives - cashflow hedges	(27)	-	(1,454)	-	1,519	-	-	-	-
Derivatives - FVTPL	(7,310)	-	-	-	-	6,893	6,893	(21,414)	(21,414)
Trade payables	(86,147)	-	-	-	-	(3,462)	(3,462)	3,462	3,462
Borrowings	(378,578)	3,786	3,786	(3,786)	(3,786)	(11,773)	(11,773)	11,773	11,773
Total increase/(decrease)		2,266	812	(2,266)	(747)	13,274	13,274	(27,795)	(27,795)

Financial risk exposure of the parent entity is limited to the exposure of the Group.

2 Financial risk management (continued)

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurement by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the group's assets and liabilities measured and recognised at fair value at 30 June 2012 and 30 June 2011.

2012	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Derivatives used for hedging	-	-	-	-
Total assets	-	-	-	-
Liabilities				
Derivatives used for hedging	-	3,650	-	3,650
Total liabilities	-	3,650	-	3,650

2011	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Available-for-sale financial assets				
Equity Securities	70,054	-	-	70,054
Derivatives used for hedging	-	-	-	-
Total assets	70,054	-	-	70,054
Liabilities				
Derivatives used for hedging	-	7,337	-	7,337
Total liabilities	-	7,337	-	7,337

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt investments and derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(p). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 14 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Estimated percentage completion for major contracts

The Group reviews the percentage of completion for it's major contracts monthly including assessing costs to be incurred to complete the project in accordance with the accounting policy stated in note 1(e) and note 1(l). These assessments require an estimate of the remaining labour and material costs for the projects.

(iii) Equity accounting for Austin Engineering

The Group has equity accounted the latest available published results of Austin Engineering Limited for the half year ending 31 December 2011. Had the Group used results for the full year ended 30 June 2012 it is not expected there would be a material difference. Differences identified when Austin Engineering Limited publishes results for the 2012 financial period will be adjusted in Bradken Limited's interim report for the half year ending 31 December 2012.

(iv) Intangibles

The group values identifiable intangibles acquired in a business combination based on a combination of independent valuations in some cases and management's estimate of the net present value of estimated future cash flows of the assets. Identifiable intangible assets are amortised over their estimated useful lives. Given the estimates involved, management review the carrying value of these assets annually for impairment.

4 Segment information

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the Managing Director.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment. Segment assets include all assets used by a segment and consist primarily of receivables, inventories and property, plant and equipment, net of related provisions. Segment liabilities consist primarily of trade and other creditors, employee benefits and provision for service warranties.

Segment revenues, expenses and results include transfers between segments. Sales of scrap between controlled entities are made on an "arm's-length" basis and are eliminated on consolidation. All other transfers are made at variable cost and are eliminated on consolidation.

(a) Description of segments

Industrial is a supplier of cast, machined and fabricated components manufactured to customer specifications or purpose designed to suit customer needs into industries such as Smelters and Refineries, Steel Manufacturers and Sugar Production. Mining Products consists of design, supply and service of wear components for all types of fixed and mobile plant in the Mining, Mineral Processing and Quarry industries. Rail is a package provider of Freight Rollingstock products and services including freight wagons, bogies, drawgear, inventory management, spare and renewed parts and the maintenance and refurbishment of rollingstock. Engineered Products based in the US is a supplier of cast parts to the Energy, Mining, Industrial and Rail Transport industries specialising in large (greater than 4,500 kg) highly engineered steel castings.

Although the Industrial segment does not meet the quantitative thresholds required by AASB 8, management has concluded that this segment should be reported, as it is closely monitored by the Managing Director.

Responsibility for the Resource business previously included as part of the US based Engineered Products segment has been moved to the Mining Products segment. Management of the former Power & Cement business based in the UK, now referred to as Bradken Europe and previously reported in "all other segments", is now undertaken by the US based Resources business and as a consequence is reported under the Mining Products segment. Responsibility for the Australian based part of the former Power & Cement business is now the responsibility of the Australian based Industrial segment and has been moved to that segment. Comparative disclosures have also been amended to reflect these changes.

The "all other" segment represents the other smaller businesses including Cast Metal Services.

4 Segment information (continued)

(b) Segment information provided to the Managing Director

The segment information provided to the Managing Director for the reportable segments for the year ending 30 June 2012 and for the year ending 30 June 2011 are as follows:

2012	**Notes**	**Industrial**	**Mining Products**	**Rail**	**Engineered Products**	**All other segments**	**Total**
		$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total segment revenue		95,437	719,826	347,440	362,703	114,122	1,639,528
Inter-segment revenue		(830)	(71,808)	(17,239)	(15,554)	(82,841)	(188,272)
Revenue from external customers		**94,607**	**648,018**	**330,201**	**347,149**	**31,281**	**1,451,256**
Gross margin		**29,477**	**217,875**	**45,042**	**117,517**	**19,705**	**429,616**
Depreciation and amortisation expense		1,803	26,915	5,440	13,103	127	47,388
Net interest expense		(19)	3,374	(647)	3,497	1,394	7,599
Impairment of inventories	Note 10	86	592	(206)	26	-	498
Impairment of trade receivables	Note 8	(7)	(5)	-	38	300	326
Income tax expense / (income)		4,018	24,368	2,621	15,246	3,751	50,004
Other non cash expenses / (revenue)		747	6,363	1,082	(717)	83	7,558
Total segment assets		**78,928**	**744,864**	**172,161**	**282,047**	**40,160**	**1,318,160**
Total segment assets include:							
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets		2,232	151,639	6,810	64,129	489	225,299
Total segment liabilities		**16,601**	**115,689**	**59,910**	**72,986**	**12,019**	**277,205**

2011	**Notes**	**Industrial**	**Mining Products**	**Rail**	**Engineered Products**	**All other segments**	**Total**
		$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total segment revenue		85,785	574,018	222,662	290,760	103,139	1,276,364
Inter-segment revenue		(1,521)	(41,749)	(9,107)	(1,696)	(74,818)	(128,891)
Revenue from external customers		**84,264**	**532,269**	**213,555**	**289,064**	**28,321**	**1,147,473**
Gross margin		**26,096**	**194,044**	**48,582**	**96,013**	**15,842**	**380,577**
Depreciation and amortisation expense		3,288	16,316	4,704	14,293	165	38,766
Net interest expense		(13)	2,459	120	6,133	70	8,769
Impairment of inventories	Note 10	84	1,515	35	(233)	6	1,407
Impairment of trade receivables	Note 8	206	89	-	77	48	420
Income tax expense / (income)		2,144	29,998	2,496	10,768	2,078	47,484
Other non cash expenses / (revenue)		1,291	3,140	(1,983)	5,772	2,192	10,412
Total segment assets		**79,566**	**407,239**	**139,665**	**236,762**	**37,012**	**900,244**
Total segment assets include:							
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets		5,807	21,284	13,712	44,262	213	85,278
Total segment liabilities		**14,843**	**68,742**	**26,068**	**53,207**	**8,363**	**171,223**

4 Segment information (continued)

(c) Other segment information

The Group's divisions are managed on a global basis and operate in five main geographical areas, Australia, the home country of the parent entity, the UK, the US, Canada, China and Other countries. The majority of revenue classified as "Other" relates to Canada, and various European, African, Asian, and South American countries.

(i) Segment revenue

Sales between segments under the same tax jurisdiction are made at variable cost and are eliminated on consolidation. Sales between segments under different tax jurisdictions are carried out at arms length and are eliminated on consolidation.

The revenue from external parties reported to the Managing Director is measured in a manner consistent with that in the income statement. Segment revenue reconciles to total revenue from continuing operations as follows:

	2012 $'000	2011 $'000
Total segment revenue	**1,639,528**	1,276,364
Intersegment eliminations	**(188,272)**	(128,891)
Interest revenue	**369**	684
Other revenue	**1,218**	1,450
Rental income	**516**	359
Royalty income	**415**	388
Sale of scrap	**868**	756
Commission income	**62**	371
Other	**1,377**	2,367
Total revenue from continuing operations (note 5)	**1,456,081**	1,153,848

Segment revenues are allocated based on the country in which the customer is located.

	2012 $'000	2011 $'000
Australia	**733,420**	648,764
US	**401,910**	287,592
Other countries	**315,926**	211,117
Revenue from external customers	**1,451,256**	1,147,473

(ii) Gross margin

The Managing Director assesses the performance of each operating segment based on a measure of gross margin. Gross margin is considered the most relevant measure of individual segment results as manufacturing plants all make product for the various segments and transfer product at cost. This measurement basis excludes the allocation of manufacturing variances and overheads from individual manufacturing plants as any allocation would be arbitrarily based.

A reconciliation of standard gross margin to operating profit before income tax is provided as follows:

	2012 $'000	2011 $'000
Gross margin	**429,616**	380,577
Fixed manufacturing overheads and other cost of sale adjustments	**(132,376)**	(112,370)
Other reveune	**2,017**	-
Other income	**4,825**	6,375
Selling and technical expenses	**(57,803)**	(50,573)
Administration expenses	**(76,681)**	(88,154)
Finance costs	**(33,785)**	(37,549)
Share of net profit of associates accounted for using the equity method	**2,826**	-
Profit before income tax	**138,639**	98,306

4 Segment information (continued)

(c) Other segment information (continued)

(iii) Segment assets

The amounts provided to the Managing Director with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. Reportable segments' assets are reconciled to total assets as follows:

	2012	2011
	$'000	$'000
Segment assets	**1,318,160**	900,244
Unallocated:		
Inventories	**(1,037)**	(2,675)
Current receivables	**(38,610)**	(650)
Intangibles	**137,743**	118,308
Property, plant and equipment	**16,023**	14,907
Available for sale financial assets	**-**	70,056
Investments accounted for using the equity method	**38,521**	-
Current tax assets	**7,150**	-
Deferred tax assets	**17,972**	11,864
Cash and cash equivalents	**101,844**	152,437
Derivative financial instruments	**-**	47
Total assets as per the balance sheet	**1,597,766**	1,264,538

Segment assets are allocated based on where the assets are located.

Australia	**539,416**	506,843
US	**255,264**	205,027
Canada	**298,681**	90,273
China	**149,065**	66,977
UK	**31,870**	25,371
Other countries	**43,864**	5,753
Total segment assets	**1,318,160**	900,244

(iv) Segment liabilities

The amounts provided to the Managing Director with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment and the physical location of the liabilities. Reportable segments' liabilities are reconciled to total liabilities as follows:

	2012	2011
	$'000	$'000
Segment liabilities	**277,205**	171,223
Unallocated:		
Payables	**1,320**	13,106
Derivative financial instruments	**3,650**	7,309
Current provisions	**59**	4,285
Non-current provisions	**5,112**	3,399
Current borrowings	**3,642**	13,392
Non-current borrowings	**542,972**	360,905
Current tax liabilities	**6,198**	17,878
Deferred tax liabilities	**38,158**	21,978
Total liabilities as per the balance sheet	**878,316**	613,475

5 Profit from ordinary activities

	2012 $'000	2011 $'000
Revenue		
From continuing operations		
Sales revenue		
Sale of goods	**1,451,256**	1,147,473
	1,451,256	1,147,473
Other revenue		
Interest	**369**	684
Dividends	**1,218**	1,450
Rental income	**516**	359
Royalty income	**415**	388
Sale of scrap	**868**	756
Commission received	**62**	371
Other	**1,377**	2,367
	1,456,081	1,153,848

Other income

	2012 $'000	2011 $'000
Foreign exchange gains (net) (note (a))	**2,017**	-
	2,017	-

(a) Net foreign exchange gains

	2012 $'000	2011 $'000
Net foreign exchange gains included in other income for the year	**2,017**	-
Net foreign exchange gains recognised in profit before income tax for the year (as either other income or expense)	**2,017**	-

5 Profit from ordinary activities (continued)

Expenses

	2012 $'000	2011 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	**3,802**	2,303
Plant & equipment	**32,723**	29,365
Leasehold improvements	**236**	6
Plant & equipment under finance leases	**5,080**	4,079
Total depreciation	**41,841**	35,753
Amortisation		
Customer lists	**6,846**	4,136
Trademarks	**1,294**	628
Licences and other	**1,192**	3,524
Total amortisation	**9,332**	8,288
Impairment charges		
Goodwill	**-**	8,759
Customer lists	**-**	1,452
Total impairment	**-**	10,211
Finance costs - net		
Interest and finance charges paid/payable	**35,732**	37,044
Borrowing costs amortisation	**2,203**	6,655
	37,935	43,699
Amount capitalised (note (a))	**(4,150)**	(6,150)
Finance costs expensed	**33,785**	37,549
Net loss on disposal of property, plant and equipment	**100**	197
Rental expense relating to operating leases		
Minimum lease payments	**7,404**	6,143
Total rental expense relating to operating leases	**7,404**	6,143
Foreign exchange gains and losses		
Net foreign exchange losses	**-**	8,474
Net foreign exchange losses recognised in profit before income tax for the year (as either other income or expense)	**-**	8,474
Research and development	1,740	1,740
Bond repurchase premium	**-**	3,372
Warranty	**7,713**	4,225
Stock Obsolescence	**498**	1,407
Net bad and doubtful debts expense (revenue) including movements in doubtful debts provision	**326**	420
Employee benefits expense	**412,722**	342,766

(a) Capitalised borrowing costs

The borrowing costs capitalised represent amounts incurred upfront to renew finance facilities.

6 Income tax expense

	2012 $'000	2011 $'000
(a) Income tax expense		
Current tax	**32,376**	40,197
Deferred tax	**4,913**	(9,022)
Adjustment for current tax of prior periods	**817**	(481)
	38,106	30,694
Income tax expense is attributable to:		
Profit from continuing operations	**38,106**	30,694
Aggregate income tax expense	**38,106**	30,694
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 13)	**(482)**	(5,669)
(Decrease) increase in deferred tax liabilities (note 21)	**5,395**	(3,353)
	4,913	(9,022)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**138,639**	98,306
	138,639	98,306
Tax at the Australian tax rate of 30% (2011: 30%)	**41,592**	29,492
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Goodwill impairment	**-**	3,084
Entertainment	**68**	71
Research and development	**(493)**	(213)
Share based payments	**601**	155
Tax offset for franked dividends	**(518)**	(523)
Sundry items	**(2,532)**	(3,044)
	38,718	29,022
Difference in overseas tax rates	**(167)**	(274)
Adjustment for tax of prior periods	**1,028**	377
Deferred tax assets restated for reduction in overseas tax rate	**231**	87
Prior year tax losses de-recognised as not probable of recovery	**(1,704)**	1,482
Income tax expense	**38,106**	30,694
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity		
Net deferred tax - debited (credited) directly to equity (notes 13 and 21)	**(1,196)**	(3,843)
	(1,196)	(3,843)
(d) Tax expense (income) relating to items of other comprehensive income		
Available-for-sale financial assets (note 23(a))	**(9,918)**	5,962
Cash flow hedges (note 23(a))	**(1,015)**	13
	(10,933)	5,975

6 Income tax expense (continued)

(e) Tax consolidation legislation

Bradken Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Bradken Limited.

The Australian entities have also entered into an agreement under which the wholly-owned entities fully compensate Bradken Limited for any current tax payable assumed and are compensated by Bradken Limited for any current tax receivable and deferred tax assets relating to the unused tax losses or unused tax credits that are transferred to Bradken Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of the financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

7 Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank and in hand	**101,892**	152,476
	101,892	152,476

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	2012 $'000	2011 $'000
Balances as above	**101,892**	152,476
Bank overdrafts (note 19)	**(173)**	(9,420)
Balances per statement of cash flows	**101,719**	143,056

(b) Interest rate risk exposure

The Group's and parent entity's exposure to interest rate risk is discussed in note 2.

8 Receivables

	2012 $'000	2011 $'000
Current		
Trade receivables	**202,922**	196,546
Provision for impairment of receivables	**(499)**	(476)
	202,423	196,070
Other receivables	**11,182**	57,722
Prepayments	**7,306**	4,696
	220,911	258,488
Non-current		
Other receivables	**1,873**	1,622
	1,873	1,622

8 Receivables (continued)

(a) Impaired trade receivables

As at 30 June 2012 current trade receivables of the Group with a nominal value of $499,000 (2011: $476,000) were impaired. The amount of the provision was $499,000 (2011: $476,000).

Movements in the provision for impairment of receivables are as follows:

	2012 $'000	2011 $'000
Balance at 1 July	476	358
Balances acquired on acquisition	66	-
Charge for the year	326	420
Receivables written off during the year as uncollectable	(375)	(151)
Unused amounts reversed	-	(61)
Foreign currency exchange differences	6	(90)
Balance at 30 June	499	476

The creation and release of the provision for impaired receivables has been included in administration expenses in the income statement. Amounts charged to the provision are generally written off when there is no expectation of recovering additional cash.

(b) Past due but not impaired

At 30 June, the ageing analysis of trade receivables is as follows:

	2012 $'000	2011 $'000
Current	138,817	136,818
0-30 days	48,947	44,186
31-60 days	9,575	10,018
61-90 days	3,483	466
91 + days	2,100	5,058
Total	202,922	196,546

As at 30 June 2012 trade receivables of $499,000 (2011:$476,000) were past due and considered impaired and trade receivables of $63,606,000 (2011:$59,252,000) were past due but not impaired.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

In relation to the receivables recognised as past due but not impaired and impaired, collateral is held in the form of a retention of title over the goods until payment is received. Given the consumable nature of these goods the ability to determine an accurate value for this collateral has been unable to be performed.

(c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group and also include amounts receivable based on the revenue recognised for contracts on a percentage of completion basis.

(d) Fair values

The fair values and carrying values of non-current receivables of the Group are as follows:

	2012		2011	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Other receivables	1,873	1,873	1,622	1,622
	1,873	1,873	1,622	1,622

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

(e) Credit risk

There is no concentration of credit risk with respect to current and non-current receivables, as the Group has a large number of customers, nationally and internationally dispersed. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

8 Receivables (continued)

(f) Foreign exchange and interest rate risk

The carrying amounts of the Group's and parent entity current and non-current receivables are denominated in the following currencies:

	2012 $'000	2011 $'000
Australian Dollars	**82,539**	177,709
US Dollars	**95,870**	55,390
Canadian Dollars	**23,649**	14,063
Chinese Yuan	**7,808**	5,360
Other *	**12,918**	7,588
	222,784	260,110

* Other refers to a basket of currencies (Euros, Great British Pounds, Japanese Yen, New Zealand Dollars, Singapore Dollars, Malaysian Ringgit, South African Rand, Chilean Pesos)

Further information about the Group's and the parent entity's exposure to credit risk, foreign exchange risk and interest rate risk in relation to trade and other receivables is provided in note 2.

9 Other receivables

	2012 $'000	2011 $'000
Current receivables under finance leases (a)	**402**	357
Non current receivables under finance leases (a)	**5,323**	5,542

(a) Receivables under finance leases

The Group leases freight rail wagons to customers in Australia under finance lease arrangements. Lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets give rise to accounts receivable in the amount of discounted future lease payments. The receivables under finance leases are as follows:

	Not later than one year $'000	Between one and five years $'000	Later than five years $'000
2011			
Present value	357	1,937	3,605
Unearned interest income	699	2,553	1,562
Total future payments	**1,056**	**4,490**	**5,167**
2012			
Present value	402	2,180	3,143
Unearned interest income	678	2,435	1,001
Total future payments	**1,080**	**4,615**	**4,144**

10 Inventories

	2012 $'000	2011 $'000
Construction work in progress:		
Contract costs incurred and recognised profits less recognised losses	**243,697**	528,787
Progress billing	**(181,716)**	(529,076)
Net construction work in progress	**61,981**	(289)
Raw materials and stores	**56,462**	37,225
Work in progress	**93,344**	74,822
Finished goods	**96,326**	65,789
	308,113	177,547

(a) Inventory expense

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2012 amounted to $498,000 (2011: $1,407,000). The expense has been included in 'cost of sales' in the income statement.

11 Derivative financial instruments

	2012 $'000	2011 $'000
Current liabilities		
Interest rate swap and cap contracts - cash flow hedges ((a)(i))	**3,409**	27
Forward foreign exchange contracts ((a)(ii))	**241**	7,310
Total current derivative financial instrument liabilities	**3,650**	7,337

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

(i) Interest rate swap and interest rate cap contracts - cash flow hedges

Bank loans of the Group had an average variable interest rate of 4.78% at 30 June 2012 (2011: 5.86%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates, and interest rate caps which provide protection over an agreed interest rate level.

Swaps and caps currently in place cover approximately 36% of bank loans (2011: 40%). The average fixed interest for the swaps and caps is 4.82% (2011: 4.59%).

At 30 June 2012, the notional principal amounts and periods of expiry of the interest rate swap and cap contracts are as follows:

	2012 $'000	2011 $'000
Interest rate swap contracts		
1 year or less	**35,359**	60,000
1 - 2 years	**30,000**	35,439
2 - 3 years	**-**	30,000
4 - 5 years	**40,000**	-
	105,359	125,439
Interest rate cap contract		
1 year or less	**20,000**	-
1 - 2 years	**-**	20,000
	20,000	20,000

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately.

At balance date for the Group these contracts were net liabilities with fair value of $3,409,000 (2011: $27,000 liability). In the year ended 30 June 2012 there was a loss from the change in fair value of $3,382,000 (2011: $43,000 gain).

11 Derivative financial instruments (continued)

(ii) Forward exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover all foreign currency exposures other than those effectively covered within the natural hedging pool.

The following table details the forward foreign currency contracts outstanding and ranges of maturity as at reporting date:

	2012	2011	**2012**	2011
	$'000	$'000	**Average exchange rate**	
Sell Australian Dollars				
Buy US Dollars				
0 to 3 months	**59,090**	89,709	**1.0127**	0.9980
3 to 6 months	**9,823**	16,436	**1.0253**	0.9905
6 to 12 months	**1,342**	23,354	**1.0080**	1.0099
Buy Euros				
0 to 3 months	**2,560**	1,214	**0.7701**	0.6964
3 to 6 months	**-**	1,062	**-**	0.6863
6 to 12 months	**-**	356	**-**	0.6825
Buy Great British Pounds				
0 to 3 months	**2,168**	641	**0.6575**	0.6470
6 to 12 months	**775**	-	**0.6330**	-
Buy Canadian Dollars				
0 to 3 months	**122**	-	**0.9976**	-
Buy New Zealand Dollars				
0 to 3 months	**28**	-	**1.2770**	-
Buy Japanese Yen				
0 to 3 months	**16**	-	**80.8600**	-
Buy Chinese Renminbi				
0 to 3 months	**101,246**	9,780	**6.4132**	6.3001
3 to 6 months	**32,253**	21,812	**6.3736**	6.2283
6 to 12 months	**43,827**	22,549	**6.3780**	6.2378
Sell Great British Pounds				
Buy US Dollars				
0 to 3 months	**94**	-	**1.5891**	-
3 to 6 months	**50**	-	**1.6126**	-
Buy Euros				
0 to 3 months	**1,134**	-	**1.2350**	-
3 to 6 months	**241**	-	**1.2455**	-
Buy Australian Dollars				
Sell US Dollars				
0 to 3 months	**65,864**	13,146	**1.0132**	0.9512
3 to 6 months	**27,539**	12,765	**1.0169**	0.9555
6 to 12 months	**23,462**	10,284	**1.0069**	0.9408

11 Derivative financial instruments (continued)

(ii) Forward exchange contracts (continued)

	2012 $'000	2011 $'000	2012 Average exchange rate	2011 Average exchange rate
Sell Canadian Dollars				
0 to 3 months	**6,112**	-	**1.0318**	-
3 to 6 months	**677**	-	**1.0100**	-
Sell Euros				
0 to 3 months	**6,113**	1,040	**0.7660**	0.7034
3 to 6 months	**60**	1,064	**0.7696**	0.6864
6 to 12 months	**3,459**	784	**0.7570**	0.6817
Sell Great British Pounds				
0 to 3 months	**2,941**	89	**0.6376**	0.6464
3 to 6 months	**429**	-	**0.6338**	-
Sell South African Rand				
0 to 3 months	**1,868**	-	**8.1213**	-
3 to 6 months	**305**	85	**8.2400**	7.4026
Sell Chinese Renminbi				
0 to 3 months	**55,888**	1,270	**6.4226**	6.4039
3 to 6 months	**19,631**	4,342	**6.3234**	6.3154
6 to 12 months	**27,024**	11,954	**6.2033**	6.2672
Sell Japanese Yen				
3 to 6 months	**1,027**	1,221	**79.8600**	79.2800
Buy Great British Pounds				
Sell Australian Dollars				
0 to 3 months	**572**	-	**1.5729**	-
3 to 6 months	**186**	-	**1.6087**	-
Sell Euros				
0 to 3 months	**-**	1,640	**-**	1.1281
Sell South African Rands				
3 to 6 months	**-**	177	**-**	11.2769

Amounts disclosed above represent currency bought and sold measured at the contracted rate.

The Group has not classified any of these hedging instruments to be effective hedges.

Group

At balance date these contracts were net liabilities of $241,000 (2011: $7,310,000 liability).

In the year ended 30 June 2012 there was a gain from the change in fair value of the liability of $7,069,000 (2011: loss of $7,086,000)

(b) Risk exposures

Further information about the Group's exposure to credit risk, foreign exchange risk and interest rate risk is provided in note 2.

12 Property, plant and equipment

	Freehold land $'000	Buildings $'000	Leasehold improve-ments $'000	Plant and equipment $'000	Leased plant and equipment $'000	Capital works in progress $'000	Total $'000
At 1 July 2010							
Cost or fair value	28,006	105,917	301	364,824	34,558	19,831	553,437
Accumulated depreciation	-	(8,513)	(56)	(137,439)	(22,447)	-	(168,455)
Net book amount	28,006	97,404	245	227,385	12,111	19,831	384,982
Year ended 30 June 2011							
Opening net book amount	28,006	97,404	245	227,385	12,111	19,831	384,982
Exchange differences	(3,257)	(11,496)	(12)	(16,522)	(1,549)	-	(32,836)
Additions	4,200	8,608	-	17,489	3,966	55,800	90,063
Acquisition of subsidiary	500	1,010	-	79	-	-	1,589
Transfer (to)/from capital work in progress	10,326	3,422	-	32,553	(7)	(46,294)	-
Disposals	-	-	-	(291)	-	-	(291)
Depreciation charge	-	(2,303)	(6)	(29,365)	(4,079)	-	(35,753)
Closing net book amount	39,775	96,645	227	231,328	10,442	29,337	407,754
At 30 June 2011							
Cost or fair value	39,775	106,706	286	387,933	36,333	29,337	600,370
Accumulated depreciation	-	(10,061)	(59)	(156,605)	(25,891)	-	(192,616)
Net book amount	39,775	96,645	227	231,328	10,442	29,337	407,754
Year ended 30 June 2012							
Opening net book amount	39,775	96,645	227	231,328	10,442	29,337	407,754
Exchange differences	1,320	3,547	(65)	4,717	(354)	-	9,165
Additions	-	-	59	-	6,133	116,695	122,887
Acquisition of subsidiary	183	7,246	5,454	25,255	45	-	38,183
Transfer (to)/from capital work in progress	360	3,473	-	61,896	-	(65,729)	-
Disposals	(2,151)	(81)	-	(736)	-	-	(2,968)
Depreciation charge	-	(3,802)	(236)	(32,723)	(5,080)	-	(41,841)
Closing net book amount	39,487	107,028	5,439	289,737	11,186	80,303	533,180
At 30 June 2012							
Cost or fair value	39,487	130,286	5,985	495,288	42,681	80,303	794,030
Accumulated depreciation	-	(23,258)	(546)	(205,551)	(31,495)	-	(260,850)
Net book amount	39,487	107,028	5,439	289,737	11,186	80,303	533,180

(a) Non current assets pledged as security

Refer to note 19 for information on non-current assets pledged as security by the group.

13 Deferred tax assets

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Doubtful debts	**135**	213
Employee benefits	**16,099**	12,799
Pension contributions subject to spreading (UK)	**-**	25
Depreciation	**1,844**	1,430
Other provisions	**1,679**	3,819
Unrealised foreign exchange differences	**2,217**	4,830
Other accruals	**6,299**	7,950
Tax losses	**2,856**	101
	31,129	31,167
Amounts recognised directly in equity		
Revaluation of financial assets at fair value	**4,792**	1,698
Cash flow hedges	**1,023**	8
	5,815	1,706
Total deferred tax assets	**36,944**	32,873
Set off of deferred tax liabilities of parent entity pursuant to set off provisions (note 21)		
Net deferred tax assets	**(18,971)**	(21,009)
	17,973	11,864
Movements:		
Opening balance at 1 July	**32,873**	29,616
Credited/(charged) to the income statement (note 6)	**482**	5,669
Credited/(charged) to other comprehensive income (note 6)	**1,015**	(13)
Credited/(charged) to equity	**2,554**	(2,584)
Acquisition of subsidiary (note 30)	**20**	185
Closing balance at 30 June	**36,944**	32,873
Deferred tax asset to be recovered after more than 12 months	**18,408**	14,826
Deferred tax asset to be recovered within 12 months	**18,536**	18,047
	36,944	32,873

14 Intangible assets

	Goodwill	Customer lists	Patents, trademarks and brands	Licences and other	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 2010					
Cost	135,876	37,191	3,605	39,851	216,523
Accumulated amortisation and impairment	-	(6,661)	(684)	(35,827)	(43,172)
Net book amount	135,876	30,530	2,921	4,024	173,351
Year ended 30 June 2011					
Opening net book amount	135,876	30,530	2,921	4,024	173,351
Additions	7,490	12,775	2,738	3,166	26,169
Acquisition of subsidiary	10,682	-	-	-	10,682
Impairment charge	(8,759)	(1,452)	-	-	(10,211)
Foreign exchange variation	(5,047)	(6,982)	(837)	(3)	(12,869)
Amortisation charge	-	(4,136)	(628)	(3,524)	(8,288)
Closing net book amount	140,242	30,735	4,194	3,663	178,834
At 30 June 2011					
Cost	149,001	42,984	5,506	43,014	240,505
Accumulated amortisation and impairment	(8,759)	(12,249)	(1,312)	(39,351)	(61,671)
Net book amount	140,242	30,735	4,194	3,663	178,834
Year ended 30 June 2012					
Opening net book amount	140,242	30,735	4,194	3,663	178,834
Additions	-	-	-	9,077	9,077
Acquisition of subsidiary	116,272	55,164	5,847	-	177,283
Foreign exchange variation	3,649	2,626	291	-	6,566
Amortisation charge	-	(6,846)	(1,294)	(1,192)	(9,332)
Closing net book amount	260,163	81,679	9,038	11,548	362,428
At 30 June 2012					
Cost	268,922	100,774	11,644	52,091	433,431
Accumulated amortisation and impairment	(8,759)	(19,095)	(2,606)	(40,543)	(71,003)
Net book amount	260,163	81,679	9,038	11,548	362,428

(a) Impairment tests for goodwill and other intangibles

The impairment testing has been performed on the following cash generating units, Industrial, Mining Products, Rail, Engineered Products.

The recoverable amount of the CGU is determined based on a value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a perpetual growth rate of 1.5% to 3.0% pa.

The carrying amounts of goodwill as disclosed in the balance sheet is $15.9m for the Industrial segment, $151.7m for the Mining Products segment, $3.4m for the Rail segment, $83.6m for the Engineered Products segment and $5.5m for the Other segment.

(b) Key assumptions used for value in use calculations

Management determined assumptions on revenue growth, gross margin, overhead level, working capital and capital expenditure have been determined based on past performance and expectations for the future. The weighted average growth rates used are consistent with forecasts included in industry reports.

In performing the value-in-use calculations, the company has applied a post tax discount rate to discount the forecast future attributable post tax cash flows. The post tax discount rate used is an estimated WACC of 7.4% (2011: 11.0%), which would translate into a pre tax discount rate of 10.6% (2011: 15.7%).

For the US operations the post tax discount rate used is an estimated WACC of 11.3% (2011: 11.0%), which would translate into a pre tax discount rate of 17.0% (2011: 16.6%).

Cash outflows for financial years from 30 June 2014 onwards have been adjusted to reflect an estimated increase in energy, supply chain and transport costs arising from the introduction of the Clean Energy Legislation (Clean Energy Act 2011 and supporting legislation) from 1 July 2012. It is unlikely that any of the group's activities will be identified as being emission-intensive trade-exposed (EITE). As a result, the cash inflows do not include any allowance for potential EITE assistance.

14 Intangible assets (continued)

(c) Impairment charge

There were no impairment charges in the period (2011: $10,211,000).

(d) Impact of possible changes in key assumptions

The impairment testing highlights a reasonable buffer between the value-in-use amount and the net book value of assets of the CGU's. Significant changes in the major assumptions would be required to generate an impairment charge.

15 Available for sale financial assets

	2012	2011
	$'000	$'000
At beginning of year	**70,054**	46,938
Additions / (Disposals)	**(681)**	3,241
Revaluation surplus/(deficit) transfer to equity	**(33,061)**	19,875
Transfers to investments accounted for using the equity method	**(36,312)**	-
At end of year	**-**	70,054
Listed securities (note (a))		
Equity securities	**-**	70,054
	-	70,054

(a) Listed securities

Listed securities represent an investment in Austin Engineering Limited.

16 Investments accounted for using the equity method

	2012	2011
	$'000	$'000
Shares in associates (note 32)	**38,521**	-
	38,521	-

17 Payables

	2012	2011
	$'000	$'000
Current		
Trade payables	**158,762**	86,147
Other payables	**44,483**	41,247
	203,245	127,394
Non current		
Other payables	**7,438**	6,970
	7,438	6,970

(a) Foreign currency risk

The carrying amounts of the Group's and parent entity's payables are denominated in the following currencies:		
Australian Dollars	**80,329**	76,693
US Dollars	**83,611**	32,118
Chinese Yuan	**33,721**	16,399
Other *	**13,022**	9,154
	210,683	134,364

* Other refers to a basket of currencies (Euros, Great British Pounds, Japanese Yen, New Zealand Dollars, Singapore Dollars, Malaysian Ringgit, South African Rand, Chilean Pesos)

(b) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

18 Provisions

	2012 $'000	2011 $'000
Current		
Employee benefits	**47,133**	44,180
Warranty	**1,026**	1,685
	48,159	45,865
Non-current		
Employee benefits	**21,497**	7,475
	21,497	7,475

(a) Warranties

Provision is made for known warranty claims at balance date. Most claims are expected to be settled in the next financial year. Management estimates the provision based on expected costs to be incurred to resolve the warranty claim.

(b) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

2012 **Warranty**	**Current** **$'000**	**Non current** **$'000**
Carrying amount at start of year	1,685	-
Additional provisions recognised	7,713	-
FX variations	16	-
Amounts used	(8,388)	-
Carrying amount at end of year	1,026	-

(c) Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	2012 $'000	2011 $'000
Long service leave obligation expected to be settled after 12 months	**2,749**	1,532

19 Borrowings

	2012 $'000	2011 $'000
Current - secured		
Bank loans	**-**	817
Lease liabilities (note 28)	**4,845**	4,043
Total secured current borrowings	**4,845**	4,860
Current - unsecured		
Bank overdrafts	**173**	9,420
Other loans	**1,029**	751
Total unsecured current borrowings	**1,202**	10,171
Total current borrowings	**6,047**	15,031

19 Borrowings (continued)

	2012 $'000	2011 $'000
Non-current secured		
Lease liabilities (note 28)	**6,196**	6,346
Total secured non-current borrowings	**6,196**	6,346
Non-current unsecured		
Bank loans	**341,187**	357,201
US private placement	**196,541**	-
Total unsecured non-current borrowings	**537,728**	357,201
Total non-current borrowings	**543,924**	363,547

(a) Secured liabilities

The total secured liabilities (current and non-current) are as follows:

	2012 $'000	2011 $'000
Bank loans	**-**	817
Lease liabilities	**11,041**	10,389
Total secured liabilities	**11,041**	11,206

(b) Other loans

Other loans are repayable within twelve months. The current interest rate on these loans are 4.91% (2011: 5.53%).

(c) Risk exposures

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2012 $'000	2011 $'000
Australian Dollars	**221,470**	260,850
US Dollars	**297,676**	87,882
Great British Pounds	**29,238**	26,978
Canadian Dollars	**1,286**	2,863
Chinese Yuan	**-**	5
Malaysian Ringgits	**111**	-
Singapore Dollars	**17**	-
Euros	**173**	-
	549,971	378,578

Further information about the Group's and the parent entity's exposure to foreign exchange risk and interest rate risk and an analysis of the sensitivity of borrowings to interest rate and foreign exchange risk, is provided in note 2.

(d) Assets pledged as security

A Canadian dollar bank loan is secured by a general security arrangement creating a first priority security interest in all personal property of the borrower and a floating charge over all the borrower's real property. There are no drawings under this facility at 30 June 2012.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

	2012 $'000	2011 $'000
Current		
Floating charge		
Receivables	**-**	10,070
Inventories	**-**	6,091
Total current assets pledged as security	**-**	16,161

19 Borrowings (continued)

	2012 $'000	2011 $'000
Non-current		
First mortgage		
Freehold land and buildings	**8,261**	8,234
Finance lease and hire purchase		
Plant & equipment	**-**	-
Floating charge		
Receivables - non-current	**-**	-
Property plant & equipment	**11,107**	12,031
Available for sale financial assets	**-**	-
	11,107	12,031
Total non-current assets pledged as security	**19,368**	20,265
Total assets pledged as security	**19,368**	36,426

(e) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	2012 $'000	2011 $'000
Credit standby arrangements		
Total facilities		
Bank overdrafts	**40,673**	30,827
Standby letters of credit and bank guarantees	**196,561**	147,602
	237,234	178,429
Used at balance date		
Bank overdrafts	**173**	9,420
Standby letters of credit and bank guarantees	**178,847**	67,427
	179,020	76,847
Unused at balance date		
Bank overdrafts	**40,500**	21,407
Standby letters of credit and bank guarantees	**17,714**	80,175
	58,214	101,582
Bank loan facilities		
Total facilities	**588,263**	552,951
Used at balance date	**348,460**	363,504
Unused at balance date	**239,803**	189,447
US private placement notes		
Total facilities	**196,541**	-
Used at balance date	**196,541**	-
Unused at balance date	**-**	-

Working capital facilities comprise bank overdraft facilities and bank guarantee and letter of credit lines. Bank overdraft facilities comprise a AUD 30,000,000 bilateral overdraft facility, a USD 10,000,000 overdraft facility, a GBP 500,000 multi option facility and a NZD 100,000 overdraft facility.

Bank guarantees and letters of credit facilities comprise a AUD 180,000,000 multicurrency revolving bank guarantee facility, a GBP 500,000 bank guarantee facility, a NZD 50,000 guarantees facility and a CNY 100,000,000 bank guarantee line.

Bank loan facilities comprise the following

(i) a syndicated loan with three and five year revolving bullet term loan facilities with a AUD 425,000,000 multi-currency tranche, a USD 100,000,000 tranche and a GBP 20,000,000 tranche. Current interest rate is 4.78%.

(ii) a USD 30 million revolving credit facility. Current interest rate is 2.56%

(ii) a CAD 5 million revolving loan that is undrawn at 30 June 2012

US Private Placement Notes comprise a 7 year USD 50,000,000 tranche, 10 year USD 100,000,000 tranche and 12 year USD 50,000,000 tranche. Current weighted average interest rate is 4.64%

19 Borrowings (continued)

(f) Fair value

The carrying amounts and fair values of interest bearing liabilities at balance date are:

	2012		2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$'000	**$'000**	$'000	$'000
On balance sheet				
Non traded financial liabilities				
Bank overdrafts	**173**	**173**	9,420	9,420
Bank loans	**341,187**	**341,187**	358,018	358,018
US senior notes	**196,541**	**196,541**	-	-
Other loans	**1,029**	**1,029**	751	751
Lease liabilities	**11,041**	**11,041**	10,389	10,389
	549,971	**549,971**	378,578	378,578

Fair value is inclusive of costs which would be incurred on settlement of a liability.

(i) On balance sheet

The fair value of interest bearing liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

(ii) Off balance sheet

The parent entity and certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in note 27. As explained in those notes, no material losses are anticipated in respect of any of those contingencies.

20 Retirement benefit obligations

(a) Superannuation plan

All employees of the Group are entitled to benefit from various superannuation or pension plans on retirement, disability or death. The Group operates two defined benefit retirement plans, one in the United States and the other in Canada. The United States plan at one of our US subsidiaries is closed to new members and covers hourly employees hired before May 10, 1993. The Canadian plan is currently active at one of our Canadian subsidiaries for hourly employees but closed on March 1, 2010 to salaried employees. Benefits for the defined benefit plans are determined on years of credited service.

The Group also operates a number of defined contribution plans which receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

The following sets out details in respect of the defined benefit plans only.

(b) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:

	2012	2011
	$'000	$'000
Present value of the defined benefit obligation	**52,110**	24,653
Fair value of defined benefit plan assets	**(35,111)**	(19,616)
Net liability in the balance sheet	**(16,999)**	(5,037)

The Group has no legal obligation to settle this liability with an immediate contribution or additional one off contributions. The Company contributes such amounts as deemed necessary on an actuarial basis to provide the Plan with assets sufficient to meet benefits paid to Plan participants.

(c) Categories of the plan assets

The major categories of plan assets are as follows:

	2012	2011
	$'000	$'000
Cash equivalents	**5,772**	4,120
Fixed interest	**5,675**	1,177
Equity securities	**23,665**	14,319
	35,112	19,616

(d) Reconciliations

	2012	2011
	$'000	$'000
Reconciliation of the present value of the defined benefit obligation, which is partly funded:		
Balance at the beginning of the year	**24,653**	30,643
Current service cost	**870**	265
Interest cost	**2,305**	1,343
Plan amendments	**395**	-
Actuarial (gains) and losses	**7,381**	69
Benefits paid	**(2,120)**	(1,356)
Acquired in business combinations	**17,351**	-
FX Translation	**1,275**	(6,311)
	52,110	24,653
Reconciliation of the fair value of plan assets:		
Balance at the beginning of the year	**19,616**	20,295
Actual return on plan assets	**(2,165)**	4,549
Contributions by Group companies	**3,499**	589
Benefits paid	**(2,120)**	(1,356)
Acquired in business combinations	**15,361**	-
FX Translation	**921**	(4,461)
	35,112	19,616

20 Retirement benefit obligations (continued)

(e) Amounts recognised in profit or loss

The amounts recognised in profit or loss are as follow:

	2012 $'000	2011 $'000
Current service cost	870	265
Interest cost	2,305	1,343
Expected return on plan assets	(2,468)	(1,199)
Recognised net actuarial loss	179	650
Past service cost	106	86
Total included in employee benefits expense	992	1,145

(f) Amounts recognised in other comprehensive income

	2012 $'000	2011 $'000
Actuarial (loss)/gain recognised in the year	(11,924)	3,622
Cumulative actuarial (losses)/gains recognised in other comprehensive income	(15,711)	(4,048)

(g) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	USA 2012	Canada 2012	USA 2011	Canada 2011
Discount rate	3.75%	4.60%	5.28%	N/A
Expected long-term return on plan assets	7.00%	6.25%	7.00%	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A

The Company selects the expected long-term rates of return on assets in consultation with its investment advisers and actuaries. The rates are intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits, and the plans are assumed to continue in force as long as assets are expected to be invested. In estimating the rates, appropriate consideration is given to historical performance for the major asset classes held or anticipated to be held by the plans and to current forecasts of future rates of return for those asset classes. Cash flow and expenses are taken into consideration to the extent that the expected return would be affected by them. Because assets are held in a qualified trust, anticipated returns are not reduced for taxes.

(h) Employer contributions

Employer contributions to the defined benefit plans are based on recommendations by the plan actuaries. Actuarial assessments are performed annually, and the last such assessments were made during June 2012.

Total employer contributions expected to be paid by Group companies for the year ending 30 June 2013 are $3,193,179.

(i) Historic summary

	2012 $'000	2011 $'000	2010 $'000	2009 $'000
Defined benefit plan obligations	52,110	24,653	30,643	27,599
Plan assets	(35,111)	(19,616)	(20,295)	(20,007)
Surplus / (deficit)	(16,999)	(5,037)	(10,348)	(7,592)

21 Deferred tax liabilities

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Prepayments	**449**	362
Design assets	**741**	149
Unrealised foreign exchange differences	**310**	1,048
Financial assets at fair value through profit or loss	**1,434**	1,359
Depreciation	**48,596**	26,014
Other	**5,599**	4,137
	57,129	33,069
Amounts recognised directly in equity		
Revaluation of Available-for-sale asset	**-**	9,918
	-	9,918
Total deferred tax liabilities	**57,129**	42,987
Set off of deferred tax liabilities of parent entity pursuant to set off provisions (note 13)	**(18,971)**	(21,009)
Net deferred tax liabilities	**38,158**	21,978
Movements:		
Opening balance at 1 July	**42,987**	46,805
Charged/(credited) to the income statement (note 6)	**5,395**	(3,353)
Charged/(credited) to other comprehensive income (note 6)	**(9,918)**	5,962
Charged/(credited) to equity (notes 22 and 23)	**1,358**	(6,427)
Acquisition of subsidiary (note 30)	**17,307**	-
Closing balance at 30 June	**57,129**	42,987
Deferred tax liabilities to be settled after more than 12 months	**54,097**	41,488
Deferred tax liabilities to be settled within 12 months	**3,032**	1,499
	57,129	42,987

22 Contributed equity

	Notes	Parent entity 2012 Shares	Parent entity 2011 Shares	Parent entity 2012 $'000	Parent entity 2011 $'000
(a) Share capital					
Ordinary shares	(b),(c)				
Fully paid		**168,629,376**	161,837,406	**704,184**	654,865
Total contributed equity				**704,184**	654,865

(b) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Parent entity $'000
At 1 July 2010	**Opening balance**		**138,747,494**	**468,460**
13 August 2010 to 19 May 2011	Exercise of Rights	(e)	313,870	2,388
13 September 2010	Dividend reinvestment plan issues	(d)	586,645	4,377
21 March 2011	Dividend reinvestment plan issues	(d)	1,346,906	10,761
21 March 2011	Dividend reinvestment plan issue underwriting	(d)	1,839,309	15,072
1 June 2011 to 30 June 2011	Equity raisings net of placement costs		19,003,182	153,807
At 30 June 2011	**Balance**		**161,837,406**	**654,865**
3 August 2011 to 17 February 2012	Exercise of Rights	(e)	188,673	-
16 September 2011	Dividend reinvestment plan issues	(d)	1,940,948	14,136
16 September 2011	Dividend reinvestment plan issue underwriting	(d)	2,657,773	19,853
19 March 2012	Dividend reinvestment plan issues	(d)	2,004,576	16,030
1 July 2011 to 30 June 2012	Adjustments to June 2011 institutional placement costs		-	(700)
At 30 June 2012	**Balance**		**168,629,376**	**704,184**

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Dividend reinvestment plan

The company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. The plan was active during the 2012 year.

(e) Performance Rights Plan

Information relating to the Performance Rights Plan, including details of shares issued under the plan, is set out in note 37.

(f) Non-executive director share acquisition plan

Information relating to the non-exective director share acquisition plan, including details of shares issued under the plan, is set out in note 37.

(g) Share buy-back

There were no share buy-backs in the period.

23 Reserves and retained profits

	2012 $'000	2011 $'000
(a) Reserves		
Hedging reserve - cash flow hedges	**(2,383)**	(16)
Share based payments reserve	**8,014**	5,975
Foreign currency translation reserve	**(18,074)**	(34,924)
Revaluation reserve	**-**	23,143
Transactions with non-controlling interests	**(564)**	(564)
	(13,007)	(6,386)
Movements:		
Hedging reserve - cash flow hedges		
Balance 1 July	**(16)**	(46)
Revaluation-gross (note 11)	**(3,382)**	43
Deferred tax (note 13)	**1,015**	(13)
Balance 30 June	**(2,383)**	(16)
Share-based payments reserve		
Balance 1 July	**5,975**	5,457
Rights expense	**2,064**	2,906
Transfer to share capital (Rights exercised)	**(25)**	(2,388)
Balance 30 June	**8,014**	5,975
Foreign currency translation reserve		
Balance 1 July	**(34,924)**	1,230
Currency translation differences arising during the year	**16,850**	(36,154)
Balance 30 June	**(18,074)**	(34,924)
Available-for-sale financial assets reserve		
Balance 1 July	**23,143**	9,230
Reversal of Austin Engineering investment	**-**	-
Revaluation-gross (note 15)	**(33,061)**	19,875
Deferred tax (note 21)	**9,918**	(5,962)
Balance 30 June	**-**	23,143
Transactions with non-controlling interests		
Balance 1 July	**(564)**	(469)
Acquisition of additional ownership Cast Metal Services Pty Ltd (s	**-**	(95)
Balance 30 June	**(564)**	(564)

(b) Retained profits

	2012 $'000	2011 $'000
Balance 1 July	**168,206**	153,270
Net profit for the year	**100,533**	67,561
Dividends	**(66,480)**	(54,971)
Actuarial (losses) / gains on retirement benefit obligations, net of tax	**(8,364)**	2,346
Balance 30 June	**193,895**	168,206

(c) Nature and purpose of reserves

(i) Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(n). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(ii) Share-based payments reserve

The share based payments reserve is used to recognise the fair value of rights issued but not exercised.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

23 Reserves and retained profits (continued)

(iv) Available-for-sale financial assets reserve

Changes in the fair value and exchange differences arising on translation of investments, such as equities classified as available-for-sale financial assets, are recognised in other comprehensive income as described in note 1(m) and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

Amounts are reversed when the classification of the investment changes to an associate.

(v) Transactions with non-controlling interests

This reserve is used to record the differences described in note 1(b)(iii) which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

24 Dividends

	2012 $'000	2011 $'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2011 of 21.0 cents (2010: 21.0 cents) per fully paid share paid on 19 September 2011 (2010: 13 September 2010)		
Fully franked based on tax paid @ 30%	**33,988**	29,138
Interim dividend for the year ended 30 June 2012 of 19.5 cents (2011: 18.5 cents) per fully paid share paid 19 March 2012 (2011: 21 March 2011)		
Fully franked based on tax paid @ 30%	**32,492**	25,833
Total dividends provided for or paid	**66,480**	54,971
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2011 and 30 June 2012 were as follows:		
Paid in cash	**16,461**	39,833
Satisfied by issue of shares	**50,019**	15,138
	66,480	54,971
(b) Dividends not recognised at year end		
In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 21.5 cents per fully paid ordinary share, (2011: 21.0 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 4 September 2012 out of retained profits at 30 June 2012, but not recognised as a liability at year end, is	**36,255**	33,988

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2012 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2013.

	Consolidated		Parent entity	
	2012 **$'000**	2011 $'000	**2012** **$'000**	2011 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2011: 30%)	**34,121**	47,544	**34,121**	47,544

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $15,538,000 (2011: $14,566,000).

25 Key management personnel disclosures

(a) Directors

The following persons were directors of Bradken Limited during the financial year:

(i) Chairman - non-executive

Nick Greiner

(ii) Executive director

Brian Hodges, Managing Director

(iii) Non executive directors

Phil Arnall
Eileen Doyle
Vince O'Rourke
Greg Laurie
Peter Richards

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	*Position*	*Employer*
Tom Armstrong	Chief Operating Officer - Engineered Products	Bradken Inc.
Bruce Arnott	Chief Financial Officer (until 30 November, 2011)	Bradken Resources Pty Ltd
Andrew Allen	General Manager - Corporate Development (from 1 July 2011)	Bradken Resources Pty Ltd
Stephen Cantwell	General Manager Rail (commenced 1 July 2011)	Bradken Resources Pty Ltd
Steven Perry	Chief Financial Officer (from 1 December 2011)	Bradken Resources Pty Ltd
Enda Sheridan	General Manager - Mining Products & Industrial Products	Bradken Resources Pty Ltd

(c) Key management personnel compensation

	2012	2011
	$	$
Short-term employee benefits	**5,343,806**	5,476,670
Post-employment benefits	**259,726**	198,106
Other long-term benefits	**97,048**	77,302
Share-based payments	**860,488**	959,342
	6,561,068	6,711,420

The company has taken advantage of the relief provided by *Corporations Regulation* 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections (a) to (d) of the remuneration report on pages 12 to 18.

(d) Equity instrument disclosures relating to key management personnel

(i) Rights provided as remuneration and shares issued on exercise of rights

Details of Performance Rights provided as remuneration and shares issued on the exercise of such Rights, together with terms and conditions of the Rights, can be found in section (d) of the remuneration report on pages 16 to 18.

25 Key management personnel disclosures (continued)

(ii) Rights holdings

The number of Rights over ordinary shares in the company held during the financial year by each director of Bradken Limited and other key management personnel of the Group, including their personally related entities, are set out below.

2012 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Bradken Limited						
Brian Hodges	253,898	84,863	-	(27,106)	311,655	36,521
Other key management personnel of the Group						
Andrew Allen	53,499	20,742	(6,773)	(5,027)	62,441	-
Tom Armstrong	56,405	19,320	(8,614)	-	67,111	-
Bruce Arnott	76,712	-	(9,987)	(7,412)	59,313	-
Stephen Cantwell	-	28,344	-	-	28,344	-
Steven Perry	28,502	6,762	(9,795)	(2,333)	23,136	-
Enda Sheridan	112,755	38,235	(15,592)	(11,573)	123,825	-

2011 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Bradken Limited						
Brian Hodges	219,509	79,890	(37,310)	(8,191)	253,898	-
Other key management personnel of the Group						
Andrew Allen	42,867	20,278	(7,909)	(1,737)	53,499	-
Tom Armstrong	38,265	25,793	(7,653)	-	56,405	-
Bruce Arnott	60,551	29,129	(10,633)	(2,335)	76,712	-
Enda Sheridan	97,278	36,331	(17,100)	(3,754)	112,755	-

(iii) Share holdings

The number of shares in the company held during the financial year by each director of Bradken Limited and other key management personnel of the Group, including their personally related entities, are set out below. There were no shares granted during the year as compensation.

2012 Name	Balance at the start of the year	Received during the year from Non-Executive Director Share Acquisition Plan	Received during the year on exercise of Rights	Other changes during the year	Balance at the end of the year
Directors of Bradken Limited					
Nick Greiner	363,789	-	-	7,483	371,272
Brian Hodges	2,352,224	-	-	9,804	2,362,028
Phil Arnall	502,749	-	-	(65,000)	437,749
Eileen Doyle	-	-	-	6,850	6,850
Greg Laurie	59,340	-	-	(12,689)	46,651
Vince O'Rourke	79,274	-	-	14,248	93,522
Peter Richards	22,148	-	-	15,131	37,279
Other key management personnel of the Group					
Andrew Allen	374,724	-	6,773	(41,754)	339,743
Tom Armstrong	38,002	-	8,614	(3,628)	42,988
Bruce Arnott	131,333	-	9,987	(141,320)	-
Steven Perry	-	-	9,795	67,293	77,088
Enda Sheridan	629,492	-	15,592	(60,902)	584,182

25 Key management personnel disclosures (continued)

(iii) Share holdings (continued)

2011 Name	Balance at the start of the year	Received during the year from Non-Executive Director Share Acquisition Plan	Received during the year on exercise of Rights	Other changes during the year	Balance at the end of the year
Directors of Bradken Limited					
Nick Greiner	362,922	-	-	867	363,789
Brian Hodges	2,500,427	-	37,310	(185,513)	2,352,224
Phil Arnall	502,749	-	-	-	502,749
Greg Laurie	59,340	-	-	-	59,340
Vince O'Rourke	75,357	-	-	3,917	79,274
Peter Richards	21,319	-	-	829	22,148
Other key management personnel of the Group					
Andrew Allen	366,706	-	7,909	109	374,724
Tom Armstrong	73,002	-	7,653	(42,653)	38,002
Bruce Arnott	131,657	-	10,633	(10,957)	131,333
Enda Sheridan	612,392	-	17,100	-	629,492

26 Remuneration of auditors

It is the Group’s policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers’ expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group’s policy to seek competitive tenders for all major consulting projects. During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non related audit firms:

	2012 $	2011 $
(a) Assurance services		
Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under *Corporations Act 2001*	**444,234**	423,538
Related practices of PricewaterhouseCoopers Australian firm	**619,044**	177,885
Non-PricewaterhouseCoopers audit firm (Deloittes NZ)	**28,351**	16,103
Non-PricewaterhouseCoopers audit firm (Grant Thornton)	**249,564**	290,431
Total remuneration for audit services	**1,341,193**	907,957
Other assurance services		
PricewaterhouseCoopers Australian firm:		
Accounting services	**25,856**	-
Related practices of PricewaterhouseCoopers Australian firm		
Accounting services	**23,100**	41,778
Non-PricewaterhouseCoopers audit firm (Fubang China)		
Capital verification services	**2,404**	428
Total remuneration for other assurance services	**51,360**	42,206
Total remuneration for assurance services	**1,392,553**	950,163
(b) Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance including review of company income tax returns	**454,225**	215,675
Related practices of PricewaterhouseCoopers Australian firm	**136,149**	13,442
Non-PricewaterhouseCoopers audit firm (Deloittes NZ)	**11,307**	5,706
Non-PricewaterhouseCoopers audit firm (KPMG US)	**430,417**	349,502
Non-PricewaterhouseCoopers audit firm (Ernst & Young China)	**-**	12,156
Non-PricewaterhouseCoopers audit firm (Tianrui China)	**685**	382
Non-PricewaterhouseCoopers audit firm (Tianrui China)	**-**	183
Non-PricewaterhouseCoopers audit firm (PT The Practice Indonesia)	**860**	-
Non-PricewaterhouseCoopers audit firm (WK Wilton South Africa)	**3,771**	-
Total remuneration for taxation services	**1,037,414**	597,046

27 Contingent liabilities

(a) Contingent Liabilities

The parent entity and Group had contingent liabilities at 30 June 2012 and 2011 in respect of:

Guarantees and letters of credit

	2012	2011
	$'000	$'000
Bank guarantees for contract performance	**177,634**	64,392
Letters of credit	**1,213**	3,035
Total estimated contingent liabilities	**178,847**	67,427

Information about guarantees given by entities within the Group, including the parent entity are described in note 33. No deficiencies of assets exist in any of these companies.

Claims

The Bradken Group has been involved from time to time in various claims and lawsuits incidental to the ordinary course of business, including damages and commercial disputes relating to its products and services. The Group has disclaimed liability and will defend any action flowing from specific claims. It is not practical to estimate the potential effect of these claims but legal advice obtained indicates that any liability that may arise in the unlikely event these claims are successful will not be significant.

No material losses are anticipated in respect of any of the above contingent liabilities.

Austin Engineering

There are no contingent liabilities that are known to Bradken that relate to Austin Engineering.

28 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2012	2011
	$'000	$'000
Land & buildings		
Payable:		
Within one year	**15,430**	17,597
	15,430	17,597
Property, plant and equipment		
Payable:		
Within one year	**25,947**	28,188
Later than one year but not later than five years	**1,043**	-
	26,990	28,188

(b) Lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	**7,826**	6,085
Later than one year but not later than five years	**14,853**	11,415
Later than five years	**2,338**	2,289
	25,017	19,789
Representing:		
Non cancellable operating leases	**23,687**	18,381
Future finance charges on finance leases	**1,330**	1,408
	25,017	19,789

28 Commitments (continued)

(i) Operating leases

Operating leases relate to buildings and plant and equipment with lease terms generally between 1 to 5 years with a small amount being payable over greater than 5 years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

	2012 $'000	2011 $'000
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows:		
Within one year	**7,074**	5,380
Later than one year but not later than five years	**14,275**	10,713
Later than five years	**2,338**	2,288
	23,687	18,381

(ii) Finance leases

The Group leases various items of plant and equipment with a carrying amount of $11,186,000 (2011: $10,442,000) under finance leases expiring within three to five years. Under the terms of the leases, the Group has the option to acquire some of the leased assets on expiry of the leases.

	2012 $'000	2011 $'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**5,596**	4,775
Later than one year but not later than five years	**6,751**	7,002
Later than five years	**-**	20
Minimum lease payments	**12,347**	11,797
Future finance charges	**(1,330)**	(1,408)
Total lease liabilities	**11,017**	10,389
Representing lease liabilities:		
Current (note 19)	**4,845**	4,043
Non current (note 19)	**6,196**	6,346
	11,041	10,389

The weighted average interest rate implicit in the leases is 8.40% (2011: 8.73%).

29 Related party transactions

(a) Parent entities

The ultimate parent entity within the Group is Bradken Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 31.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 25.

(d) Terms and conditions

Transactions relating to dividends were on the same conditions that applied to other shareholders.

The terms and conditions of the tax funding agreement are set out in note 6(e).

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. Outstanding balances are unsecured with no fixed term for repayment.

30 Business combination

(a) Summary of acquisitions and assets and liabilities acquired

Current Period

(i) Australian and Overseas Alloys (AOA)

On 7 July 2011 Bradken Resources Pty Ltd (a 100% subsidiary of Bradken Limited) acquired 100% of the issued shares of Australian and Overseas Alloys Pty Ltd based in Wollongong NSW.

The total consideration for the acquisition amounted to $20.7m, with funding from existing facilities.

The acquired business has been absorbed into the Mining Products business. It is not practical to disclose revenues and net profit after tax to the Group for the full year as if the acquisition had taken place on 1 July 2011. Acquisition costs for the period were $227,000 and are included in administration expenses in profit or loss.

Details of net assets acquired and goodwill are as follows:

	$'000
Purchase consideration	**20,475**
Fair value of net identifiable assets acquired (refer below)	**3,421**
Goodwill	**17,054**

The goodwill is attributable to the profitability of the acquired business and synergies expected to arise after the Group's acquisition of the AOA business. The fair value of assets and liabilities arising from the acquisition are as follows:

	Fair value $'000
Cash	1,170
Property, plant and equipment	942
Inventories	521
Receivables	1,490
Payables	(688)
Provisions for employee entitlements	(83)
Deferred tax assets	20
Current tax liabilities	49
Net identifiable assets acquired	**3,421**

(ii) Norcast

On 11 July 2011 Bradken Operations Pty Ltd (a 100% subsidiary of Bradken Limited) acquired 100% of the issued shares of Norcast Wear Solutions Inc. (Norcast) based in Toronto, Canada from Castle Harlan Inc.

The total consideration for the acquisition amounted to $206.2m and was funded from existing facilities.

The acquired business has been absorbed into the Mining Products business. It is not practical to disclose revenues and net profit after tax to the Group for the full year as if the acquisition had taken place on 1 July 2011. Acquisition costs for the period were $621,000 and are included in administration expenses in profit or loss.

Details of net assets acquired and goodwill are as follows:

	$'000
Purchase consideration	**206,175**
Fair value of net identifiable assets acquired (refer below)	**109,338**
Goodwill	**96,837**

30 Business combination (continued)

The goodwill is attributable to the profitability of the acquired business and synergies expected to arise after the acquisition of the business.

The fair value of assets and liabilities arising from the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	9,655
Property, plant and equipment	37,247
Acquired intangibles	61,012
Inventories	19,482
Receivables	23,743
Payables	(22,376)
Provisions for employee entitlements	(2,706)
Borrowings	(31)
Current tax liability	630
Deferred tax liability	(17,318)
Net identifiable assets acquired	**109,338**

Prior Period

(i) Other acquisitions in the prior period

Between 28 October 2010 and 19 May 2011 three small acquisitions were made. The assets of Materix Enginerring Pty Ltd and Investment Castings Pty Ltd were acquired on 28 October 2010 and 15 November 2010 respectively. On 19 May 2011 the Bradken Group acquired Wear Protect Systems Pty Ltd and two of it's related companies.

Total consideration for these acquisitions amounted to $29.5m, with funding from existing facilities.

Details of the business combinations were disclosed in Note 29 of the Group's annual financial statements for the year end 30 June 2011.

31 Transactions with non-controlling interests

(a) Transactions with non-controlling interests

	2012 $'000	2011 $'000
Carrying amount of non-controlling interests acquired	-	122
Consideration paid to non-controlling interests	-	(217)
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	-	(95)

32 Investments in associates

		2012 $'000	2011 $'000
(a) Movements in carrying amounts			
Carrying amount at the beginning of the financial year		**-**	-
Cost of investment previously carried as an available for sale financial asset	Note 15	**36,312**	-
Increase in investment by way of share purchases in current period		**671**	-
Share of profits after income tax		**2,045**	-
Dividends received/receivable		**(507)**	-
Carrying amount at the end of the financial year		**38,521**	-

(b) Summarised financial information of associates

The group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

	Company's share of:			
	Assets $'000	Liabilities $'000	Revenues $'000	Profit $'000
2012				
Austin Engineering Ltd * (ownership interest 20%)	46,499	24,599	21,943	2,045
	46,499	24,599	21,943	2,045

* Listed entity incorporated in Australia

(c) Fair value of listed investments in associates

	2012 $'000	2011 $'000
Austin Engineering Ltd	**62,306**	-
	62,306	-

33 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit, and lodgement of financial reports, and directors' report. It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee.

The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act 2001, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The companies subject to the Deed are:

- Bradken Limited
- Bradken SPV Pty Limited
- Bradken Resources Pty Limited
- Bradken Mining SPV Pty Limited
- Bradken Holdings Pty Limited
- Bradken Operations Pty Limited
- Bradken Finance Pty Limited
- Cast Metal Services Pty Limited
- Bradken Leasing Pty Limited (formerly Geoff Brown and Co. Pty Limited)

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Bradken Limited, they also represent the 'Extended Closed Group'.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2012 of the Closed Group outlined above.

	2012	2011
	$'000	$'000
Income statement		
Revenue from continuing operations	**640,899**	766,478
Cost of sales	**(472,797)**	(583,135)
Gross profit	**168,102**	183,343
Other income	**4,407**	-
Selling and technical expenses	**(40,858)**	(39,352)
Administration expenses	**(39,579)**	(49,893)
Finance costs	**(26,861)**	(28,616)
Share of net profit of associates accounted for using the equity method	**2,826**	-
Profit before income tax	**68,037**	65,482
Income tax (expense) / benefit	**(18,711)**	(17,869)
Profit for the year	**49,326**	47,613
Statement of comprehensive income		
Profit for the year	**49,326**	47,613
Changes in the fair value of available-for-sale financial assets	**(33,061)**	19,875
Changes in the fair value of cash flow hedges	**(3,382)**	43
Exchange differences on translation of foreign operations	**34**	(117)
Income tax relating to components of other comprehensive income	**10,933**	(5,975)
Other comprehensive income for the year net of tax	**(25,476)**	13,826
Total comprehensive income for the year	**23,850**	61,439
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**128,569**	130,507
Profit for the year	**49,326**	47,613
Dividends provided for or paid	**(66,480)**	(54,971)
Dividends received from companies not in Closed Group	**40,663**	-
Companies joining the Closed Group	**-**	5,420
Retained earnings at the end of the financial year	**152,078**	128,569

33 Deed of cross guarantee (continued)

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2012 for the Closed Group outlined above.

	2012 $'000	2011 $'000
Current assets		
Cash and cash equivalents	**63,904**	6,100
Receivables	**459,831**	352,036
Other receivables and other assets	**402**	357
Inventories	**150,055**	79,741
Current tax assets	**6,945**	-
Total current assets	**681,137**	438,234
Non-current assets		
Receivables	**68**	57
Other financial assets	**369,204**	273,166
Available for sale financial assets	**-**	70,054
Investments accounted for using the equity method	**38,521**	-
Property, plant and equipment	**234,705**	232,255
Intangible assets	**58,306**	47,599
Deferred tax assets	**12,189**	8,424
Total non-current assets	**712,993**	631,555
Total assets	**1,394,130**	1,069,789
Current liabilities		
Payables	**108,507**	80,802
Borrowings	**3,584**	12,602
Current tax liabilities	**21**	11,901
Provisions	**35,507**	34,187
Derivative financial instruments	**3,650**	7,337
Total Current Liabilities	**151,269**	146,829
Non-current liabilities		
Borrowings	**542,108**	275,226
Provisions	**5,259**	3,533
Total non-current liabilities	**547,367**	278,759
Total liabilities	**698,636**	425,588
Net assets	**695,494**	644,201
Equity		
Contributed equity	**538,569**	487,343
Reserves	**4,847**	28,289
Retained profits	**152,078**	128,569
Total equity	**695,494**	644,201

34 Reconciliation of profit after income tax to net cash inflow from operating activities

	2012 $'000	2011 $'000
Profit for the year	**100,533**	67,612
Share of profits of associates	**(2,045)**	-
Depreciation and amortisation of licences and designs	**51,173**	44,041
Impairment of goodwill and customer intangibles	**-**	10,211
Amortisation of finance costs	**2,203**	6,655
Non-cash employee benefits expense - share-based payments	**2,064**	2,906
Net (gain) loss on sale of non-current assets	**100**	197
Net exchange differences	**(4,177)**	5,776
(Increase) / decrease in trade debtors and bills of exchange	**34,412**	(104,175)
(Increase) / decrease in inventories	**(118,689)**	(31,915)
(Increase) / decrease in other financial assets at fair value through profit or loss	**-**	238
(Increase) / decrease in deferred tax assets	**(3,013)**	(5,914)
Increase / (decrease) in trade creditors	**56,314**	16,830
(Increase) / decrease in other financial liabilities at fair value through profit or loss	**(3,687)**	6,805
Increase / (decrease) in provision for income taxes payable	**(18,701)**	9,220
Increase / (decrease) in provision for deferred income tax	**8,780**	(3,294)
Increase / (decrease) in other provisions	**15,974**	7,184
Net cash inflow from operating activities	**121,241**	32,377

35 Non cash investing and financing activities

	2012 $'000	2011 $'000
Acquisition of plant and equipment by means of finance leases	**6,133**	3,966
	6,133	3,966

Dividends satisfied by the issue of shares under the dividend reinvestment plan are shown in note 24 and rights and shares issued to employees under the Bradken Limited Performance Rights Plan and the Bradken Limited Employee Share Plan for no cash consideration are shown in note 37.

Ordinary shares issued for acquisition of entities for no cash consideration are shown in note 22.

36 Earnings per share

	2012 Cents	2011 Cents
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	**60.5**	47.6
Profit attributable to the ordinary equity holders of the company	**60.5**	47.6
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	**59.8**	47.1
Profit attributable to the ordinary equity holders of the company	**59.8**	47.1

(c) Reconciliations of earnings used in calculating earnings per share

	2012 $'000	2011 $'000
Basic earnings per share		
Profit from continuing operations	**100,533**	67,612
Profit from continuing operations attributable to non-controlling interests	**-**	(51)
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**100,533**	67,561
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**100,533**	67,561
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**100,533**	67,561
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**100,533**	67,561

(d) Weighted average number of shares used as the denominator

	2012 Number	2011 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**166,176,563**	141,860,442
Adjustments for calculation of diluted earnings per share:		
Rights	**1,814,155**	1,580,597
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**167,990,718**	143,441,039

(e) Information concerning the classification of securities

(i) Rights

Rights granted to employees under the Bradken Performance Rights Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The Rights have not been included in the determination of basic earnings per share. Details relating to the Rights are set out in note 35.

37 Share based payments

(a) Non-Executive Director Share Acquisition Plan

The Company has a Non-Executive Director Share Acquisition Plan (NED Plan). All current and future Non-Executive Directors are encouraged to have a percentage of their annual Directors' fees provided in shares under the NED Plan. Shares will be allocated to the Non-Executive Directors under the NED Plan and must be held for a specified period.

Non-executive directors may elect to have a percentage of their annual fixed directors' fees provided in shares under the Non-Executive Director Share Acquisition Plan (NED plan). Participation in the plan is voluntary.

Non-Executive Directors will not be able to sell or otherwise dispose of the shares until the earliest of 10 years after acquisition or the Non-Executive Director ceasing to be a director of the Company (except in very limited circumstances). During this period the shares will be subject to a holding lock.

At 30 June 2012 there are no Directors participating in the NED plan.

(b) Performance Rights Plan

The Performance Rights Plan (PRP) is the Company's long-term incentive (LTI) scheme for selected key executives. The Managing Director recommends the list of executives who are entitled to participate in this scheme and seeks approval of the list from the Human Resources Committee which is then ratified by the Board. Under the PRP, eligible executives may be granted Performance Rights (each being a right to acquire a share, subject to the satisfaction of exercise conditions) on terms and conditions determined by the Board and as documented in the PRP Plan rules and Trust Deed. If the exercise conditions are satisfied, the Performance Rights may be exercised and the shares issued and delivered to the executive. The Board may impose restrictions on the disposal of the shares and implement procedures to enforce the restrictions.

The rules of the PRP provide that the Board may determine a price that is payable to exercise a Performance Right, or that no amount is payable by the executive upon exercise of the Right.

Shares will immediately be allocated on exercise of a Performance Right. Performance Rights may only be exercised following satisfaction of performance conditions, unless the Board determines an event (such as a takeover bid) has occurred.

All grants of Performance Rights issued so far have been at no cost to participating executives. In relation to future grants, the Board may impose performance conditions that reflect the Company's business plans, targets, budgets and its performance relative to peer groups of companies.

If any additional persons become entitled to participate in the PRP and their participation requires approval under Chapter 10 of the Listing Rules, they will not participate in the PRP until shareholder approval is received pursuant to Listing Rule 10.14. Mr Brian Hodges, being the only Executive Director of the Company, is the only Director entitled to participate in the PRP. If any other Director is to participate in the PRP, the Company would seek shareholder approval as required by the Listing Rules.

The performance conditions are based on the relative total shareholder return ("TSR") of the Company measured against other companies in the ASX Small Cap Industrials index during the performance period. TSR measures the total return on investment of a share taking into account capital appreciation, capital return and dividend income.

37 Share based payments (continued)

(b) Performance Rights Plan (continued)

In assessing whether the performance hurdles have been met, the Human Resources Committee receives independent data from an independent investment bank which provides both Bradken's growth from previous financial years and that of the ASX Small Industrials Index. The Company's performance against the hurdle is then determined with each company in the ASX Small Industrials Index and Bradken being ranked in order of growth in results from previous financial years. The Company's percentile ranking is determined by aggregating the weighting within the ASX Small Industrials Index (based on market capitalisation) of each company ranked below Bradken. The method of assessment was chosen as it provides the Committee with an objective means of measuring the Company's performance against its peer group.

Dividends, changes in share price, and return of capital are included in the TSR calculation which is one of the performance criteria assessed for the LTI. The specific TSR performance conditions in relation to the grants are:

Target	Percentage of Rights available in given year to vest
The Company's TSR does not meet performance of the median company in ASX Small Cap	0
The Company's TSR equals or exceeds performance of the median company in ASX Small Cap	50
The Company's TSR ranked in third quartile of companies in ASX Small Cap	Pro rata between 50 and 100
The Company's TSR ranked in fourth quartile of companies in ASX Small Cap	100

New entrants to the scheme are provided with a transition to the 3 year plan.

Summary of Rights issues in the plan:

Grant date	Number of Rights	Fair value per Right	Financial periods in which Rights may vest
31 October 2007	11,682	$6.87	30 June 2010 / 2011
31 October 2007	259,691	$8.45	30 June 2011
17 October 2008	25,025	$2.84	30 June 2010 / 2011
17 October 2008	15,621	$4.11	30 June 2011
17 October 2008	340,655	$4.82	30 June 2012
29 October 2009	29,831	$2.50	30 June 2011
29 October 2009	69,401	$3.71	30 June 2011 / 2012
29 October 2009	665,216	$4.41	30 June 2013
5 November 2010	34,537	$5.13	30 June 2012 / 2013
5 November 2010	26,832	$5.13	30 June 2013
5 November 2010	550,078	$6.12	30 June 2014
7 October 2011	24,304	$4.76	30 June 2013 / 2015
7 October 2011	24,311	$4.76	30 June 2014 / 2015
7 October 2011	17,877	$4.01	30 June 2013 / 2014
7 October 2011	577,235	$4.76	30 June 2015

There were no other Rights eligible for issuance under the scheme at 30 June 2012.

37 Share based payments (continued)

The movements in Rights issues in the plan are as follows:

Grant Date	Fair value at grant date	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
2012							
18 November 2005	2.35	10,344	-	-	-	10,344	10,344
30 October 2006	2.80	13,008	-	-	(1,219)	11,789	13,008
30 October 2006	3.44	14,993	-	-	-	14,993	14,993
31 October 2007	4.44	5,715	-	-	(771)	4,944	5,715
31 October 2007	6.87	2,481	-	(2,481)	-	-	-
31 October 2007	8.45	7,443	-	(7,443)	-	-	-
17 October 2008	2.84	6,492	-	(2,580)	(3,912)	-	-
17 October 2008	4.11	3,910	-	(1,032)	(2,762)	116	116
17 October 2008	4.82	321,001	-	(135,025)	(136,765)	49,211	49,211
29 October 2009	3.71	34,697	-	(20,507)	(1,119)	13,071	-
29 October 2009	4.41	660,817	-	-	(11,772)	649,045	-
5 November 2010	5.13	34,537	-	(10,549)	-	23,988	-
5 November 2010	5.13	26,832	-	(16,386)	-	10,446	-
5 November 2010	6.12	550,078	-	-	(6,149)	543,929	-
7 October 2011	4.76	-	24,304	-	-	24,304	-
7 October 2011	4.76	-	24,311	-	-	24,311	-
7 October 2011	4.01	-	17,877	-	-	17,877	-
7 October 2011	4.76	-	577,235	-	(6,440)	570,795	-
Total		1,692,348	643,727	(196,003)	(170,909)	1,969,163	93,387
Weighted average price		5.04	4.74	4.88	4.76	4.98	4.02

Vesting for the performance period to 30 June 2012 will occur following the test date on 7 August 2012.

Grant Date	Fair value at grant date	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
2011							
18 November 2005	2.35	10,344	-	-	-	10,344	10,344
30 October 2006	2.80	19,092	-	(6,084)	-	13,008	13,008
30 October 2006	3.44	52,697	-	(37,704)	-	14,993	14,993
31 October 2007	4.44	7,482	-	(1,767)	-	5,715	5,715
31 October 2007	6.87	7,863	-	(3,963)	(1,419)	2,481	2,481
31 October 2007	8.45	222,436	-	(173,044)	(41,949)	7,443	7,443
17 October 2008	2.84	25,025	-	(16,181)	(2,352)	6,492	2,580
17 October 2008	4.11	15,621	-	(11,711)	-	3,910	-
17 October 2008	4.82	323,537	-	-	(2,536)	321,001	-
29 October 2009	2.50	29,831	-	(29,831)	-	-	-
29 October 2009	3.71	69,401	-	(33,585)	(1,119)	34,697	-
29 October 2009	4.41	665,216	-	-	(4,399)	660,817	-
5 November 2010	5.13	-	34,537	-	-	34,537	-
5 November 2010	5.13	-	26,832	-	-	26,832	-
5 November 2010	6.12	-	550,078	-	-	550,078	-
Total		1,448,545	611,447	(313,870)	(53,774)	1,692,348	56,564

37 Share based payments (continued)

Grant Date		Fair value at grant date	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Weighted average price			4.96	6.02	6.17	7.56	5.04	3.98

The expiry dates of all grants shown in the tables above are 10 years from the test date.

The weighted average share price at the date of exercise of Rights exercised regularly during the year ended 30 June 2012 was $6.98 (2011: $8.10). The weighted average remaining contractual life of share Rights outstanding at the end of the period was 1.52 years (2011: 1.44 years).

Fair value of Rights granted

The assessed fair value at grant date of Rights granted during the year ended 30 June 2012 was between $4.01 and $4.76 per right (2011: between $5.13 and $6.12). The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the Right, the vesting and performance criteria, the impact of dilution, the non tradeable nature of the Right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the Right.

The following factors and assumptions have been used in determining the fair value of Rights for the issues granted:

Grant Date	Expiry Date	Fair value per Right	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
18/11/2005	Ten years from Test Date	2.35	-	4.15	90%	5.35%	0.00%
30/10/2006	Ten years from Test Date	2.80	-	6.00	90%	5.73%	0.00%
30/10/2006	Ten years from Test Date	3.44	-	6.00	90%	5.73%	0.00%
31/10/2007	Ten years from Test Date	4.44	-	14.68	90%	6.18%	0.00%
31/10/2007	Ten years from Test Date	6.87	-	14.68	90%	6.18%	0.00%
31/10/2007	Ten years from Test Date	8.45	-	14.68	90%	6.18%	0.00%
17/10/2008	Ten years from Test Date	2.84	-	6.30	139%	5.19%	0.00%
17/10/2008	Ten years from Test Date	4.11	-	6.30	139%	5.19%	0.00%
17/10/2008	Ten years from Test Date	4.82	-	6.30	139%	5.19%	0.00%
29/10/2009	Final test date	2.50	-	6.05	129%	5.52%	0.00%
29/10/2009	Final test date	3.71	-	6.05	129%	5.52%	0.00%
29/10/2009	Final test date	4.41	-	6.05	129%	5.52%	0.00%
5/11/2010	Final test date	5.13	-	8.60	125%	5.25%	0.00%
5/11/2010	Final test date	5.13	-	8.60	125%	5.25%	0.00%
5/11/2010	Final test date	6.12	-	8.60	125%	5.25%	0.00%
7/10/2011	Final test date	4.76	-	6.80	121%	4.24%	0.00%
7/10/2011	Final test date	4.76	-	6.80	121%	4.24%	0.00%
7/10/2011	Final test date	4.01	-	6.80	121%	4.24%	0.00%
7/10/2011	Final test date	4.76	-	6.80	121%	4.24%	0.00%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(c) Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2012 $'000	2011 $'000
Rights issued under Performance Rights Plan	**2,064**	2,906
	2,064	2,906

38 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2012 $'000	2011 $'000
Balance sheet		
Total assets	**787,185**	724,129
Current liabilities	**-**	11,822
Total liabilities	**-**	11,822
Shareholders' equity		
Issued capital	**704,184**	654,865
Share-based payments reserve	**8,014**	5,975
Retained earnings	**74,987**	51,467
	787,185	712,307
Profit or loss for the year	**90,000**	75,000
Total comprehensive income	**90,000**	75,000

(b) Guarantees entered into by the parent entity

The parent entity is a guarantor under the Bradken Group - Common Terms Deed Poll and unconditionally and irrevocably guarantees payments due in connection with any financing facilities owed by any Group company.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2012 or 30 June 2011.

(d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any contractual commitments for the acquisition of property, plant or equipment at 30 June 2012 or 30 June 2011.

39 Events occurring after balance sheet date

No material events have occurred that affect the operations of the Group from the end of the financial period ended 30 June 2012 to the date of issue of this report.

In the directors' opinion:

(a) the financial statements and notes set out on pages 25 to 90 are in accordance with the Corporations Act 2001, including

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of it's performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 33 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 33.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors:

Nick Greiner
Chairman

Brian Hodges
Managing Director

Sydney
6 August 2012

Independent auditor's report to the members of Bradken Limited

Report on the financial report

We have audited the accompanying financial report of Bradken Limited (the company), which comprises the balance sheet as at 30 June 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Bradken Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

PricewaterhouseCoopers Centre, 26 Honeysuckle Drive, PO Box 798, NEWCASTLE NSW 2300

T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

Auditor's opinion

In our opinion:

(a) the financial report of Bradken Limited is in accordance with the *Corporations Act 2001* , including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* ; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 12 to 20 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001* . Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Matters relating to the electronic presentation of the reviewed financial report

This auditor's report relates to the financial report and remuneration report of Bradken Limited (the company) for the year ended 30 June 2012 included on Bradken Limited web site. The company's directors are responsible for the integrity of the Bradken Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Campion

John Campion
Partner

Newcastle
6 August 2012

12 February 2013

Manager, Company Announcements
Australian Stock Exchange Limited
Level 4
20 Bridge Street
Sydney NSW 2000

Dear Sir

Please find attached the Company's announcement of it's interim results for the 20012/13 year, for immediate release to the market.

Included in this announcement is Appendix 4D and Half Yearly Report for the period to 31 December 2012.

Yours faithfully

Steven Perry
Company Secretary
Encl:

BRADKEN LIMITED

Appendix 4D

Half Year Report Period Ended 31 December 2012

Results for Announcement to the Market

		Percentage Change		$'000
Revenues from ordinary activities	Up	0.9%	to	684,827
Profit (loss) from ordinary activities after tax attributable to members	Up	8.5%	to	46,715
Net Profit (loss) for the period attributable to members	Up	8.5%	to	46,715

Dividends

	Amount per Security	Percentage Franked
Current period:		
Interim Dividend	20.0 cents	100%
Record Date for determining entitlements to the dividend:	22nd February 2013	
Date the dividend is payable:	14th March 2013	
Prior corresponding period:		
Interim Dividend	19.5 cents	100%

Net Tangible Assets per Security	
As at 31st December 2012	$2.17
As at 31st December 2011	$2.03

Bradken Limited

Interim Report 31 December 2012

Contents Page

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012 and any public announcements made by Bradken Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Directors' Report

Your directors present their report on the consolidated entity consisting of Bradken Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2012.

Directors

The following persons were directors of Bradken Limited during the whole of the half-year and up to the date of this report:

Name

Nick Greiner Non Executive Chairman	Brian Hodges Managing Director	Phil Arnall Non Executive Director
Eileen Doyle Non Executive Director	Greg Laurie Non Executive Director	Peter Richards Non Executive Director

Vince O'Rourke was a director from 1 July 2012 until he retired on 23 October 2012.

Commentary on results and review of operations

Financial Overview

	HY13	HY12	Change
NPAT	$46.7m	$43.0m	Up 9%
EBITDA	$105.1m	$100.1m	Up 5%
EBITDA margin	15.5%	14.6%	
Sales revenue	$680.5m	$683.2m	Steady
Operating cash flow	$70.8m	$10.7m	
Earnings per share	27.6 cents	26.2 cents	Up 1.4 cents
Dividends per share	20.0 cents	19.5 cents	Up 3%
LTIFR	4.3	4.2	

Net profit after tax attributable to members for the half-year was $46.7m (2012 $43.0m).

A review of the operations of the Bradken Group during the half-year and the results of those operations is attached in the ASX Release.

Segment revenues and results

A summary of consolidated revenues and results for the half-year by significant industry segments is set out on pages 8 and 9.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 2.

Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the director's report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order unless otherwise noted.

This report is made in accordance with a resolution of directors.

Brian Hodges
Managing Director

Nick Greiner
Chairman

Sydney
11 February 2013

Auditor's Independence Declaration

As lead auditor for the review of Bradken Limited for the half year ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Bradken Limited and the entities it controlled during the period.

John Campion
Partner
PricewaterhouseCoopers

Newcastle
11 February 2013

PricewaterhouseCoopers, ABN 52 780 433 757
PricewaterhouseCoopers Centre, 26 Honeysuckle Drive, PO Box 798, NEWCASTLE NSW 2300
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	Notes	Half-year 2012 $'000	Half-year 2011 $'000
Revenue from continuing operations		**680,516**	**683,150**
Cost of sales		**(536,996)**	(547,508)
Gross profit		**143,520**	135,642
Other income		**4,311**	7,573
Selling and technical expenses		**(31,079)**	(28,463)
Administration expenses		**(39,272)**	(37,327)
Finance costs		**(15,768)**	(16,286)
Share of net profit of associates accounted for using the equity method		**5,692**	-
Profit before income tax		**67,404**	61,139
Income tax expense		**(20,689)**	(18,091)
Profit for the half-year		**46,715**	43,048
Profit attributable to:			
Owners of Bradken Limited		**46,715**	43,048
		46,715	43,048
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share:		**27.6**	26.2
Diluted earnings per share:		**27.3**	25.9

The above consolidated income statement should be read in conjunction with the accompanying notes.

	Notes	Half-year 2012 $'000	Half-year 2011 $'000
Profit for the half-year		**46,715**	43,048
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of available-for-sale financial assets		**-**	(12,772)
Changes in the fair value of cash flow hedges		**289**	(2,317)
Exchange differences on translation of foreign operations		**(4,292)**	17,377
Income tax relating to these items		**(87)**	4,526
Items that will not be reclassified to profit or loss			
Tax adjustment to actuarial (losses) / gains on retirement benefit obligations		**(342)**	-
Other comprehensive income for the half-year net of tax		**(4,432)**	6,814
Total comprehensive income for the half-year		**42,283**	49,862
Total comprehensive income for the half-year is attributable to:			
Owners of Bradken Limited		**42,283**	49,862
		42,283	49,862

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	31 December 2012 $'000	30 June 2012 $'000
Current assets		
Cash and cash equivalents	**98,890**	101,892
Receivables	**165,105**	220,911
Other receivables and other assets	**427**	402
Inventories	**274,662**	308,113
Current tax assets	**3,596**	7,150
Derivative financial instruments	**1,971**	-
Total current assets	**544,651**	638,468
Non-current assets		
Receivables	**4,415**	1,873
Other receivables and other assets	**5,207**	5,323
Property, plant and equipment	**559,235**	533,180
Deferred tax assets	**12,374**	17,973
Intangible assets	**357,399**	362,428
Investments accounted for using the equity method	**41,053**	38,521
Total non-current assets	**979,683**	959,298
Total assets	**1,524,334**	1,597,766
Current liabilities		
Payables	**121,033**	203,245
Borrowings	**5,866**	6,047
Current tax liabilities	**2,748**	6,198
Provisions	**44,647**	48,159
Derivative financial instruments	**3,181**	3,650
Total Current Liabilities	**177,475**	267,299
Non-current liabilities		
Payables	**7,146**	7,438
Borrowings	**550,558**	543,924
Deferred tax liabilities	**37,386**	38,158
Provisions	**20,914**	21,497
Total non-current liabilities	**616,004**	611,017
Total liabilities	**793,479**	878,316
Net assets	**730,855**	719,450
Equity		
Contributed equity	**542,389**	538,562
Reserves	**(15,547)**	(13,007)
Retained profits	**204,013**	193,895
Capital and reserves attributable to the owners of Bradken Limited	**730,855**	719,450
Total equity	**730,855**	719,450

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

	Notes	Attributable to owners of Bradken Limited					
		Contributed Equity	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
		$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2011		**489,243**	**(6,386)**	**168,206**	**651,063**	**-**	**651,063**
Profit for the half-year		-	-	43,048	43,048	-	43,048
Other comprehensive income		-	6,814	-	6,814	-	6,814
Total comprehensive income for the half-year		**-**	**6,814**	**43,048**	**49,862**	**-**	**49,862**
Transactions with owners in their capacity as owners:							
Dividends provided for or paid	3	33,988	-	(33,988)	-	-	-
Placement transaction costs		(167)	-	-	(167)	-	(167)
Deferred tax adjustment for previously booked placement costs		(533)	-	-	(533)	-	(533)
Employee share options - value of employee services		-	1,553	-	1,553	-	1,553
		33,288	**1,553**	**(33,988)**	**853**	**-**	**853**
Balance at 31 December 2011		**522,531**	**1,981**	**177,266**	**701,778**	**-**	**701,778**
Balance at 1 July 2012		**538,562**	**(13,007)**	**193,895**	**719,450**	**-**	**719,450**
Profit for the half-year		-	-	46,715	46,715	-	46,715
Other comprehensive income		-	(4,090)	(342)	(4,432)	-	(4,432)
Total comprehensive income for the half-year		**-**	**(4,090)**	**46,373**	**42,283**	**-**	**42,283**
Transactions with owners in their capacity as owners:							
Dividends provided for or paid	3	3,809	-	(36,255)	(32,446)	-	(32,446)
Deferred tax adjustment for previously booked placement costs		18	-	-	18	-	18
Employee share options - value of employee services		-	1,550	-	1,550	-	1,550
		3,827	**1,550**	**(36,255)**	**(30,878)**	**-**	**(30,878)**
Balance at 31 December 2012		**542,389**	**(15,547)**	**204,013**	**730,855**	**-**	**730,855**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	Notes	Half-year 2012 $'000	Half-year 2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**853,651**	735,290
Payments to suppliers and employees (inclusive of goods and services tax)		**(753,843)**	(679,364)
Transaction costs relating to acquisition of subsidiary and acquisition of business		**(16)**	(920)
		99,792	55,006
Interest received		**77**	89
Interest paid		**(14,614)**	(16,185)
Income taxes paid		**(14,408)**	(28,179)
Net cash inflow / (outflow) from operating activities		**70,847**	10,731
Cash flows from investing activities			
Payments for purchase of businesses, net of cash acquired		**(2,461)**	(367)
Payments for purchase of subsidiary net of cash acquired		**-**	(189,869)
Payment for property, plant and equipment		**(66,678)**	(57,327)
Payments for design costs		**(3,428)**	(3,580)
Proceeds from sale of available for sale financial assets		**-**	681
Proceeds from sale of property, plant and equipment		**18,688**	97
Dividends received		**1,521**	1,218
Net cash inflow / (outflow) from investing activities		**(52,358)**	(249,147)
Cash flows from financing activities			
Proceeds from issue of shares		**-**	19,853
Transaction costs from issue of shares		**-**	(167)
Proceeds from borrowings		**72,894**	314,398
Repayment of borrowings		**(55,927)**	(184,233)
Payments of finance lease liabilities		**(5,519)**	(4,136)
Dividends paid to company's shareholders		**(32,446)**	(19,853)
Net cash inflow / (outflow) from financing activities		**(20,998)**	125,862
Net increase / (decrease) in cash and cash equivalents		**(2,509)**	(112,554)
Cash and cash equivalents at the beginning of the half-year		**101,719**	143,056
Effects of exchange rate changes on cash and cash equivalents		**(643)**	(1,814)
Cash and cash equivalents at the end of the half-year		**98,567**	28,688

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of preparation of half-year financial report

This general purpose consolidated financial report for the interim half year reporting period ended 31 December 2012 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012 and any public announcements made by Bradken Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(a) Impact of standards issued but not yet applied by the entity

In December 2009, the AASB issued AASB 9 Financial Instruments which addresses the classification and measurement of financial assets and may affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2015 but is available for early adoption. The Group is yet to assess its full impact. The Group has not yet decided when to adopt AASB 9.

2 Segment information

(a) Description of segments

Operating segments are reported in a manner that is generally consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the Managing Director.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment. Segment assets include all assets used by a segment and consist primarily of receivables, inventories and property, plant and equipment, net of related provisions.

Segment revenues, expenses and results include transfers between segments. Sales of scrap between controlled entities are made on an "arm's-length" basis and are eliminated on consolidation. All other transfers are made at variable cost and are eliminated on consolidation.

Mining Products consists of design, supply and service of wear components for all types of earth moving in the Mining and Quarry industries. Mineral Processing consists of design supply and service of mill liner components in the Mineral Processing industries. Rail is a package provider of Freight Rollingstock products and services including freight wagons, bogies, drawgear, inventory management, spare and renewed parts and the maintenance and refurbishment of rollingstock. Engineered Products, based in the North America, is a supplier of cast parts to the Energy, Power, Cement, Industrial and Rail Transport industries specialising in large (greater than 4,500 kg) highly engineered steel castings.

Responsibility for the North American based Resource business previously included as part of the Engineered Products segment has been moved to the Mining Products segment. The Mineral Processing business previously reporting within the Mining Products business has been removed from that segment following the acquisition and consolidation of the Canadian based Norcast business in 2011 and is now reported as a separate segment. Management has concluded that the results of the previously reported Industrial segment is no longer required to be separately disclosed. The segment does not meet any quantitative thresholds required by AASB 8 and is considered by management to be of decreasing relevance as the Group's operations continue to expand. Management has concluded that the results of this operation are better included in the "all other segments" column. Comparative disclosures have also been amended to reflect these changes.

Had the Industrial segment been separately disclosed revenue would have been $50,218,000 (2011: $49,147,000) and gross margin would have been $16,511,000 (2011: $15,880,000).

2 Segment information (continued)

(b) Segment information provided to the Managing Director

The segment information provided to the Managing Director for the reportable segments for the half-year ended 31 December 2012 is as follows:

	Mining Products	Mineral Processing	Rail	Engineered Products	All other segments	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Half-year 2012						
Total segment revenue	188,938	130,462	135,393	221,904	106,514	783,211
Inter-segment revenue	(18,590)	(20,350)	(3,486)	(16,998)	(43,271)	(102,695)
Revenue from external customers	170,348	110,112	131,907	204,906	63,243	680,516
Gross margin	59,267	40,514	17,509	70,088	26,339	213,717
Half-year 2011						
Total segment revenue	160,060	132,192	171,605	200,222	107,546	771,625
Inter-segment revenue	(9,871)	(15,943)	(6,946)	(12,904)	(42,811)	(88,475)
Revenue from external customers	150,189	116,249	164,659	187,318	64,735	683,150
Gross margin	50,454	39,477	28,054	62,023	24,990	204,998
Total segment assets						
At 31 December 2012	380,636	312,183	88,485	316,898	120,955	1,219,157
At 30 June 2012 *	334,958	333,164	172,161	327,312	119,088	1,286,683

* As part of the restatement of the comparative disclosures at 30 June 2012, $31.477m of Corporate assets were removed from the Engineered Products segment hence the total segments assets disclosed varies to that reported at 30 June 2012 by that amount.

Corporate assets are not disclosed separately within the half year financial statements.

The Managing Director assesses the performance of each operating segment based on a measure of gross margin. Gross margin is considered the most relevant measure of individual segment results as manufacturing plants all make product for the various segments and transfer product at cost. This measurement basis excludes the allocation of manufacturing variances and overheads from individual manufacturing plants as any allocation would be arbitrarily based.

A reconciliation of standard gross margin to operating profit before income tax is provided as follows:

	Half-year	
	2012	2011
	$'000	$'000
Gross margin	**213,717**	204,998
Fixed manufacturing overheads and other cost of sale adjustments	**(70,197)**	(69,356)
Other income	**4,311**	7,573
Selling and technical expenses	**(31,079)**	(28,463)
Administration expenses	**(39,272)**	(37,327)
Finance costs	**(15,768)**	(16,286)
Share of net profit of associates accounted for using the equity method	**5,692**	-
Profit before income tax	**67,404**	61,139

The amounts provided to the Managing Director with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

3 Dividends

	Half-year 2012 $'000	Half-year 2011 $'000
Ordinary shares		
Dividends provided for or paid during the half-year	**36,255**	33,988

Dividends not recognised at the end of the half-year

In addition to the above dividends, since the end of the half-year the directors have declared the payment of an interim dividend of 20.0 cents per fully paid ordinary share (2011 - 19.5 cents), fully franked based on tax paid at 30%. The aggregate amount of the dividend to be paid on 14 March 2013 out of retained profits at 31 December 2012, but not recognised as a liability at the end of the half-year, is	**33,848**	32,492

4 Equity securities issued

	Half-year		Half-year	
	2012	2011	**2012**	2011
	Shares	Shares	**$'000**	$'000
Issues of ordinary shares during the half-year				
Exercise of rights issued under the Bradken Limited Performance Rights Plan - shares issued	**-**	188,673	**-**	-
Dividend reinvestment plan issues	**611,286**	1,940,948	**3,809**	14,136
Shares issued in relation to underwriting of dividend	**-**	2,657,773	**-**	19,852
Adjustments to Institutional Placement costs June 2011	**-**	-	**18**	(700)
	611,286	4,787,394	**3,827**	33,288

5 Contingencies

(a) Contingent liabilities

A claim in the Federal Court for damages was lodged by Norcast S.ar.l (a related entity of Pala Investments) following the purchase of Norcast Wear Solutions (NWS), Inc by Bradken from Castle Harlan in July 2012. Norcast S.ar.l. is alleging that Bradken engaged in anticompetitive and misleading and deceptive conduct during the bidding and sale process for NWS. The case has been heard in the Federal Court and a decision is expected to be handed down in the first quarter of 2013. Bradken has vigorously defended the claim. At this stage legal advice obtained to date supports Bradken's current position and as such no provision has been recognised in the financial statements.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 3 to 10 are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Bradken Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of directors.

Brian Hodges
Managing Director

Nick Greiner
Chairman

Sydney
11 February 2013

Independent auditor's review report to the members of Bradken Limited

Report on the half year financial report

We have reviewed the accompanying half-year financial report of Bradken Limited, which comprises the balance sheet as at 31 December 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Bradken Group (the consolidated entity). The consolidated entity comprises both Bradken Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* , in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001* . As the auditor of Bradken Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001* .

PricewaterhouseCoopers, ABN 52 780 433 757

PricewaterhouseCoopers Centre, 26 Honeysuckle Drive, PO Box 798, NEWCASTLE NSW 2300

T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bradken Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001* .

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the Company for the half-year 31 December 2012 included on Bradken Limited's web site. The company's directors are responsible for the integrity of the Bradken Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Campion

John Campion
Partner

Newcastle
11 February 2013

PricewaterhouseCoopers, ABN 52 780 433 757
PricewaterhouseCoopers Centre, 26 Honeysuckle Drive, PO Box 798, NEWCASTLE NSW 2300
T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

Corporate directory

Directors

Nick Greiner
Chairman

Brian Hodges
Managing Director

Phil Arnall

Eileen Doyle

Greg Laurie

Peter Richards

Company Secretary
Steven Perry
David Chesterfield

Registered Office and Principal Place of Business
2 Maud Street
Mayfield West NSW 2304
Telephone: +61 2 4941 2600
Facsimile: +61 2 4967 5003
Internet: www.bradken.com.au

Share Registry
Link Market Services Limited
Level 12 680 George Street
Sydney NSW 2000
Telephone: +61 2 8280 7519
Facsimile: +61 2 9261 8489
Internet: www.linkmarketservices.com.au

Auditors
PricewaterhouseCoopers
26 Honeysuckle Drive
Newcastle NSW 2300

Stock Exchange
The Company is listed on the Australian Stock Exchange. The home exchange is Sydney.

Web site address
www.bradken.com.au

13 August 2013

Manager, Company Announcements
Australian Stock Exchange Limited
Level 4
20 Bridge Street
Sydney NSW 2000

Dear Sir

Please find attached the Company's announcement of it's results for the 2012/13 year, for immediate release to the market.

Included in this announcement is Appendix 4E and the Full Financial Report for the period to 30 June 2013.

Yours faithfully

Steven Perry
Company Secretary
Encl:

Bradken® Bradken Limited (ABN 33 108 693 009)
20 McIntosh Drive Mayfield West NSW 2304 Australia PO Box 105 Waratah NSW 2298 Australia

Bradken Limited

Appendix 4E for period end 30 June 2013

Results for Announcement to the Market

				$'000
Revenues from ordinary activities	Down	-9.5%	to	1,317,442
Profit (loss) from ordinary activities after tax attributable to members	Down	-33.4%	to	66,937
Net Profit (loss) for the period attributable to members	Down	-33.4%	to	66,937
Underlying Net Profit (loss) for the period attributable to members *	Down	-4.5%	to	96,054

* Adjusted for costs associated with the Pala legal case, judgement and associated costs

Dividends

	Amount per security	Franked amount per security
Current period:		
Final Dividend (franked to 100% at a tax rate of 30%)	18.0 cents	18.0 cents
Date the dividend is payable: 13 September 2013		
Record Date to determine entitlement to the final dividend: 23 August 2013		
Interim Dividend (franked to 100% at a tax rate of 30%)	20.0 cents	20.0 cents
Prior corresponding period:		
Final Dividend (franked to 100% at a tax rate of 30%)	21.5 cents	21.5 cents
Interim Dividend (franked to 100% at a tax rate of 30%)	19.5 cents	19.5 cents

Net Tangible Assets per Security

As at 30 June 2013	$2.23
As at 30 June 2012	$2.07

BRADKEN

Bradken Limited

Full Financial Report 30 June 2013

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BRADKEN

Directors	Nicholas Greiner, AC, B.Ec., MBA *Independent Non-Executive Chairman*	
	Brian Hodges, B.Chem.Eng. (Hons) *Managing Director and Chief Executive Officer*	
	Phil Arnall, B.Com. *Independent Non Executive Director*	
	Eileen Doyle, PhD *Independent Non Executive Director*	
	Greg Laurie, B.Com. *Independent Non Executive Director*	
	Peter Richards, B.Com. *Independent Non Executive Director*	
Company Secretary and CFO	Steven Perry, B.Com. MBA, CPA	
Joint Company Secretary	David Chesterfield, MBA	
Business unit general managers	**Mining Products** Enda Sheridan, B. Materials Eng. MBA	
	Mineral Processing Brad Ward	
	Engineered Products Tom Armstrong, B. Industrial and Systems Eng.	
	Rail Stephen Cantwell, B. Business (Operations Research and Information Systems) and Master of Business	
Notice of annual general meeting	The annual general meeting of Bradken Limited	
	will be held at	Bradken Global Corporate Centre (Bradford room) 20 McIntosh Drive Mayfield West NSW
	time	2:00pm
	Date	22 October 2013
Principal registered office in Australia	20 McIntosh Drive Mayfield West NSW 2304	Telephone: +61 2 4926 8200
Share registry	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000	Telephone: +61 2 8280 7519
Auditor	PricewaterhouseCoopers 26 Honeysuckle Drive Newcastle NSW 2300	
Stock exchange listings	Bradken Limited shares are listed on the Australian Stock Exchange. The home exchange is Sydney.	
Web site address	www.bradken.com	

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Bradken Limited and the entities it controlled at the end of, or during, the year ended 30 June 2013.

This report has been divided into the following sections:

A. General information
B. Corporate governance statement
C. Operational and financial review
D. Remuneration report
E. Other information

A. General information

Directors

The following persons were directors of Bradken Limited during the whole of the financial year and up to the date of this report unless otherwise noted:

Nick Greiner	Brian Hodges	Greg Laurie
Phil Arnall	Eileen Doyle	Peter Richards

Vince O'Rourke was a director from the beginning of the financial year until his retirement on 23 October 2012.

Principal activities

During the year the principal activities of the Group consisted of:

- supply and service of wear components for mining and earthmoving equipment
- supply of equipment and consumables to the mineral processing, quarrying and power markets
- supply of cast, machined and fabricated components and highly engineered steel castings to the energy, industrial, oil & gas and rail transport industries
- manufacture and maintenance of freight rollingstock products
- supply of foundry consumables to the foundry and steelmaking industries

There were no major changes in the nature of the activities of the Group during the period.

Dividends - Bradken Limited

Dividends paid to members during the financial year were as follows:

	2013 **$'000**	2012 $'000
Final dividend for the year ended 30 June 2012 of 21.5 cents (2011: 21.0 cents) per fully paid share paid on 4 September 2012 (2011: 19 September 2011)	**36,255**	33,988
Interim dividend for the year ended 30 June 2013 of 20.0 cents (2012: 19.5 cents) per fully paid share paid 14 March 2013 (2012: 19 March 2012)	**33,848**	32,492
	70,103	66,480

In addition to the above dividends, since the end of the financial year the directors have declared the payment of a fully franked final dividend of $30,463,000 (18.0 cents per fully paid ordinary share) to be paid on 13 September 2013 out of retained profits at 30 June 2013.

Significant changes in the state of affairs

There are no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

A. General information (continued)

Likely developments and expected results of operations

Additional comments on expected results of certain operations of the group are included in this annual report under the Operating and Financial Review section on pages 13 to 15.

Further disclosure on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group's operations are subject to significant environmental regulation under both Commonwealth and State legislation governing, amongst other things, noise, air emissions, the use, handling, and disposal of hazardous substances and waste. The Group has devoted and will continue to devote resources to environmental compliance and management in each of the jurisdictions in which it operates.

An environmental management system is in place which complies with the international standard ISO14001 in major sites in Australia, the UK and New Zealand, while the US and China operate under local legal compliance requirements equivalent to ISO14001. It is Group policy to be environmentally proactive and to adopt practices that minimise adverse environmental impacts and to communicate and provide appropriate feedback on the Group's environmental performance. In accordance with the Group's environmental policy, procedures and goals have been established aimed at ensuring:

- all manufacturing and engineering sites have developed, implemented, and maintain environmental management systems meeting the requirements of ISO14001
- the environmental management systems are integrated with the existing business systems
- zero notifiable incidents and zero justified neighbourhood complaints
- continuing reduction of industrial waste disposal costs by continual improvement of working practices, such as cleaner production and improved recycling.

Based upon the results of inquiries made, the Board is not aware of any significant breaches during the period covered by this report nor does it consider the Group is subject to any presently known material environmental liabilities. Under agreements with local authorities capital expenditure is required at some Australian sites to reduce dust and odour emissions.

Greenhouse gas and energy data reporting requirements

In Australia, the energy related requirements have corporate thresholds and Bradken Group companies are subject to the reporting requirements of the *Energy Efficiency Opportunities Act 2006* and the *National Greenhouse and Energy Reporting Act 2007* and site thresholds for the *National Pollutant Inventory*. Bradken site emissions are below the carbon tax criteria so Bradken is not liable to purchase carbon permits directly and pays the carbon tax via increased energy prices.

In Australia, Bradken is currently carrying out energy assessments in compliance with the *Energy Efficiency Opportunities Act 2006.* This includes the identification, investigation and evaluation of energy saving opportunities. Another requirement is to complete an Energy Mass Balance. By benchmarking energy and raw material consumption efficiency across the foundries, a range of cost saving opportunities have been identified. Bradken is required to report publicly (via the Bradken website) on the assessments undertaken, including what action the Group intends to take as a result. The Group continues to meet its obligations under this Act.

In Australia, the *National Greenhouse and Energy Reporting Act 2007* requires the group to report its annual Australia wide greenhouse gas emissions and energy use from large and small facilities. The data is collected at the end of the financial year and entered into the government website as required. Bradken continues to meet its obligations under this act.

The United Kingdom sites signed the *UK Climate Change Agreements* taking effect from 1st April 2013. This requires the foundries to reduce energy intensity by 3.4% by 2020 with reporting periods every 2 years from December 2014. There are possible changes with the UK carbon tax system that may exempt the metals sector. Bradken continues to meet its obligations under this act.

In the United States, Bradken Atchison will be reporting its GHG emissions as it exceeds the US Greenhouse Gas Reporting Rule threshold of 25,000 tpa CO_2e. Other US sites do not exceed this threshold. Bradken Atchison is also participating in the US Dept of Energy Better Plants program with a pledge to reduce energy intensity by 25% over 10 years.

None of the Bradken Canadian facilities exceed the 50,000 t CO_2e threshold for reporting under the Canadian GHGRP program.

There are no mandatory GHG or energy reporting requirements that apply to Bradken operations in China, Malaysia or New Zealand.

A. General information (continued)

Information on directors

Nick Greiner, AC, B.Ec., MBA. *Independent Non-Executive Chairman.* Age 66.

Experience and expertise

Chairman of Bradken Limited since 2004. Extensive experience in corporate roles. Formerly, Premier and Treasurer of New South Wales.

Other current directorships

Chairman of QBE Australia, Chairman of Nuance Global Traders, Deputy Chairman of Champ Private Equity and a director of various private groups.

Former directorships in the last three years

Chairman of Infrastructure NSW and Chairman of Citigroup Australia.

Special responsibilities

Member of Human Resources Committee.

Interest in shares

371,272 ordinary shares in Bradken Limited.

Brian Hodges, B.Chem.Eng. (Hons). *Managing Director.* Age 59.

Experience and expertise

Managing Director of the Bradken business since 2001. Formerly General Manager of the Bradken business from 1997. Extensive management and engineering experience in Australia for BHP, Australian National Industries and the Smorgon Steel Group.

Other current directorships

None.

Former directorships in the last three years

None

Special responsibilities

Managing Director.

Interest in shares and rights

2,316,630 ordinary shares in Bradken Limited.
305,774 rights over ordinary shares in Bradken

Phil Arnall, B.Com. *Independent Non-Executive Director.* Age 68.

Experience and expertise

Director of Bradken Limited since 2004. Extensive experience in mining and steel industries in management positions. Held senior management positions with Smorgon Steel Group and Australian National Industries.

Other current directorships

Non-executive director of AJ Lucas Limited.

Former directorships in the last three years

Chairman of Ludowici Limited and non-executive director of Macquarie Generation.

Special responsibilities

Member of Audit and Risk Committee
Member of Human Resources Committee.

Interest in shares

387,040 ordinary shares in Bradken Limited.

A. General information (continued)

Eileen Doyle, PhD *Independent Non-Executive Director.* Age 58.

Experience and expertise

Director of Bradken Limited since 1 July 2011. Over 30 years of experience in the materials and water industries in Australia, including senior executive roles in BHP, Hunter Water and CSR. A founding Director of OneSteel Limited and board member for 10 years and Chairman of Port Waratah Coal Services Pty Ltd for 11 years.

Other current directorships

Non-executive director of Boral Group Limited and GPT Group Limited and director of various private groups and government bodies.

Former directorships in the last three years

Director of Onesteel Limited, Ross Human Directions Limited and Steel and Tube Limited (NZ).

Special responsibilities

Member of Audit and Risk Committee
Chairman of Human Resources Committee.

Interest in shares

17,650 ordinary shares in Bradken Limited.

Greg Laurie, B.Com. *Independent Non-Executive Director.* Age 71.

Experience and expertise

Director of Bradken Limited since 2005. Extensive experience in manufacturing and distribution industries. Formerly Finance Director of Crane Group Limited and CFO of Rheem Australia Limited.

Other current directorships

Independent non-executive director of Nick Scali Limited and various private groups.

Former directorships in the last three years

None.

Special responsibilities

Chairman of Audit and Risk Committee.

Interest in shares

44,667 ordinary shares in Bradken Limited.

Peter Richards, B.Com. *Independent Non-Executive Director.* Age 54.

Experience and expertise

Appointed Director of Bradken Limited in 2009. Over 30 years of business and international experience with global companies including BP plc, Wesfarmers Ltd and most recently as CEO of Dyno Nobel Limited.

Other current directorships

Non-executive director of NSL Consolidated Limited, Emeco Holdings Limited and Sedgman Limited.

Former directorships in the last three years

Chairman and non-executive director of Minbos Resources Limited and Kangaroo Resources Limited and non-executive director of Norfolk Group Limited.

Special responsibilities

Member of Audit and Risk Committee.

Interest in shares

42,099 ordinary shares in Bradken Limited.

A. General information (continued)

Company Secretary

The Company Secretary is Mr Steven Perry, B.Com, MBA, CPA. Mr Perry joined the Group in 1990 and progressed through a number of financial roles most recently spending nine years as Commercial Manager Mining Products. As Company Secretary and Chief Financial Officer (CFO) Mr Perry is responsible for finance, treasury, taxation, investor relations, investments, audit and insurance. The Joint Company Secretary is Mr David Chesterfield, MBA.

Meetings of directors

The number of meetings of the Company's board of directors and of each Board committee held during the year ended 30 June 2013, and the number of meetings attended by each director were:

Director	Full meetings of directors *		Audit and Risk Committee meetings		Human Resources Committee meetings		Non-executive directors meetings	
	A	B	A	B	A	B	A	B
Nick Greiner	11	11	**	**	4	5	**	**
Brian Hodges	11	11	**	**	**	**	**	**
Phil Arnall	11	11	5	5	5	5	3	3
Eileen Doyle	11	11	5	5	5	5	3	3
Greg Laurie	11	11	5	5	**	**	3	3
Vince O'Rourke	4	4	**	**	3	3	**	**
Peter Richards	11	11	5	5	**	**	3	3

A Number of meetings attended

B Number of meetings held during the time the director held office during the period

***** Bradken Limited does not have a fully constituted Nominations Committee, however, as and when required the full Board participates as the Nominations Committee in order to fulfill its corporate governance responsibilities

****** = Not a member of the relevant committee

B. Corporate governance statement

Principle 1 - Lay solid foundations for management and oversight

Bradken Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Group’s main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. They comply with the ASX Corporate Governance Principles and Recommendations.

The responsibilities of the Board include:

- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy
- reviewing and approving the business plans, the annual budget and financial plans including available resources and capital expenditure initiatives
- overseeing and monitoring:
  - organisational performance and the achievement of the Group's strategic goals and objectives
  - compliance with the Company's Code of Conduct (see page 10)
  - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Group's auditors
- appointment, performance assessment and, if necessary, removal of the Managing Director
- ratifying the appointment and/or removal and contributing to the performance assessment of the members of the senior management team including the Chief Financial Officer (CFO) / Company Secretary
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the organisation
- overseeing the operation of the Group's system for compliance and risk management.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives.

Principle 2 - Structure the Board to add value

The Board operates in accordance with broad principles set out in its charter which is available from the corporate governance information section of the Company's website at www.bradken.com. The charter details the Board's composition and responsibilities.

Board composition

The charter states:

- the Board comprise both executive and non-executive directors with a majority of non-executive directors, and one executive director being the Managing Director / Chief Executive Officer. Non-executive directors bring a fresh perspective to the Board’s consideration of strategic, risk and performance matters
- in recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairman must be an independent non-executive director, the majority of the Board must be independent of management and all directors are required to exercise independent judgement and review and constructively challenge the performance of management
- the Chairman is elected by the full Board and is required to meet regularly with the Managing Director
- the Company is to maintain a mix of directors from different backgrounds with complementary skills and experience both nationally and internationally with a majority of directors having knowledge of the Group or related industries and/or financial expertise
- the Board is required to undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the Board is conducive to effective discussion and efficient decision-making.

B. Corporate governance (continued)

Directors' independence

The Board has adopted specific principles in relation to directors' independence. These state that when determining independence, a director must be a non-executive and the Board should consider whether the director:

- holds less than 5% of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than 5% of the voting shares of the Company
- has not within the last three years been employed in an executive capacity by the Company or another Group member
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another Group member
- is not a material supplier to or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer
- has no material contractual relationship with the Company or another Group member other than as a director of the Company
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Group
- has not served on the Board of the Group for a period which could materially interfere with the Director's ability to act in the best interests of the Group.

The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading "Information on directors" in Section A. As at the date of this report the Board of the Company comprises five non-executive directors, all of whom are considered independent under the principles set out above, and the Managing Director.

Non-executive directors

The five non-executive directors met twice during the year, in scheduled sessions without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings were shared with the full Board.

Term of office

The Board Charter recommends a maximum period of 12 years service as a director, subject to re-elections every year by rotation such that 1/3 of the directors are subject to re-election each year.

The Company's Constitution specifies the tenure of the Managing Director on the Board is limited to that of his Executive Office.

Chairman and chief executive officer (CEO)

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives. In accepting the position, the Chairman has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of Chairman.

The Board charter specifies that these are separate roles to be undertaken by separate people. The CEO is responsible for implementing Group strategies and policies.

Induction

The induction provided to new directors and senior managers enables them to actively participate in Board decision-making as soon as possible. It ensures that they have a full understanding of the Company's financial position, strategies, operations, culture, values and risk management policies. It also explains the respective rights, duties, responsibilities, interaction and roles of the Board and senior executives, the role of the Board committees and the Company's meeting arrangements.

B. Corporate governance (continued)

Commitment

The Board has established a framework for the management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds nine scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Managing Director and Company Secretary. Standing items include the Managing Director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

The commitments of non-executive directors are considered by the Board prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time to discharge their responsibilities to the Company.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group.

Where the Board believes that a significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

There were no director related entity transactions with companies of the Group.

Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice from a suitably qualified adviser at the Group's expense. Prior approval from the Chairman is required, but this will not be unreasonably withheld.

Performance assessment

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. Management are invited to contribute to this appraisal process. The results and any action plans are documented. The most recent assessment was undertaken in July 2012.

The Chairman meets privately with each director to discuss this assessment and their individual situation.

Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Human Resources Committee and the Audit and Risk Committee. Each is comprised entirely of non-executive directors. The committee structure and membership is reviewed on an annual basis and a policy of rotation of committee members applies as considered appropriate by the Chairman.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company website. All matters determined by the committees are submitted to the full Board as recommendations for Board decisions.

Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Bradken Limited does not have a fully constituted Nominations Committee, however, as and when required the full Board participates as the Nominations Committee in order to fulfill its corporate governance responsibilities in regard to:

- Board appointments and performance;
- Directors' induction program;
- Committee membership;
- Other relevant matters.

The full Board undertakes the functions of a Nominations Committee as described in the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

Audit and Risk Committee

The Company also has an Audit and Risk Committee, see page 11 for details.

B. Corporate governance (continued)

Principle 3 - Promote ethical and responsible decision making

Code of conduct

The Company has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity and to take into account legal obligations and reasonable expectations of the Company's stakeholders.

All directors, managers and employees are expected to act with the utmost integrity, objectivity and in compliance with the letter and spirit of the law and Group policies, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

The Group has advised each director, manager and employee that they must comply with the Group's Whistleblower Policy. The Policy covers the following:

- encouraging employees to report any behaviour that may be dishonest, fraudulent, corrupt, illegal, in breach of Commonwealth or State Legislation, unethical, improper, unsafe or any other behaviour that may cause financial or non-financial loss to the Group or would be otherwise detrimental to the interests of the Group
- ensuring that the Group complies with its obligations to protect the reporter of any such behaviour.

The Company also has a Securities Trading Policy which details the insider trading provisions of the Corporations Act 2001. In summary, trading of the Company's shares is restricted to a period of six weeks after the release of the Group's half-year and annual results to the Australian Stock Exchange (ASX), the Annual General Meeting of the Company, at any time a prospectus or similar disclosure document has been lodged with ASIC and is open for acceptances and at such other times as the Board of Directors declare trading permissible. These windows are not available to individuals that possess inside information.

A copy of the Code, the Whistleblower Policy and the Securities Trading Policy are available on the Company's website.

Diversity and equality policy

The Group recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. The Group has established an Equal Opportunity and Diversity Policy, a copy of which can be accessed from the Company's website.

The Group believes its diverse workforce is the key to its continued growth, improved productivity and performance. The Group actively values and embraces the diversity of its employees and is committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequity are not tolerated.

While the Group is committed to fostering diversity at all levels, gender diversity has been and continues to be a priority for the Group. The Board has not established any specific measurable objectives in terms of percentage of women employed, however, the Group's objective is to increase gender diversity throughout all levels of the organisation. This proactive approach begins at the recruitment phase but also is an important consideration in internal promotion, training and development activities.

The following statistics are provided outlining the percentage of women employed throughout the Group at the end of the current and previous financial year end.

	2013		2012	
	Number	%	Number	%
Number of women on the board	1	17%	1	14%
Number of women in senior management positions *	3	4%	2	3%
Number of women in all positions	406	8%	403	7%

* The percentage is expressed as the proportion of available positions in the described category.

Promote ethical and responsible decision making

The Group recognises the importance of integrating the company's values and Code of conduct into a transparent social responsibility culture of compliance to meet the expectations of its stakeholders, which is described in the Company's Corporate Social Responsibility Policy.

The policy sets out the social principles, responsibilities, guidelines and features of the Company's social responsibility policy in compliance with Australian Standard AS8003 “Corporate Social Responsibility”.

Management recognise that our social, economic and environmental responsibilities to our stakeholders are integral to our business and the Company aims to demonstrate these responsibilities through our actions and within our corporate policies.

B. Corporate governance (continued)

Principle 4 - Safeguard integrity in financial reporting

Audit and Risk Committee

It is the Board's responsibility to ensure that an effective internal control framework exists within the Group. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information.

The Board has an Audit and Risk Committee which operates under a charter approved by the Board. The Board has delegated overseeing the establishment and maintenance of a framework of internal control, risk management and ethical standards to the Audit and Risk Committee. The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit and Risk Committee are non-executive directors. The charter under which the Audit and Risk Committee operates is available on the Company website.

The Audit and Risk Committee meets with the external and internal auditors on a regular basis. It reviews its performance and effectiveness periodically and reviews its charter and makes recommendations to the Board on its charter annually.

The Audit and Risk Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The members of the Audit and Risk Committee during the year were:

Greg Laurie (Chairman)

Phil Arnall

Eileen Doyle

Peter Richards

Details of these directors attendance at Committee meetings are set out in the directors' report on page 6.

External auditors

The Group policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers was appointed as the external auditor in 2005. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 26 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit and Risk Committee.

The external auditor is required to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Principle 5 and 6 - Make timely and balanced disclosures and respect the rights of shareholders

Continuous disclosure and shareholder communication

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which focuses on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. The Company's procedures also include arrangements the company has in place to promote communication with shareholders and encourage effective participation at general meetings. Full details of the Continuous Disclosure Policy is available on the Company's website.

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules.

All shareholders can elect to receive a copy of the Group's annual report. In addition the Company seeks to provide opportunities for shareholders to participate through electronic means. All Company announcements, media briefings, details of Company meetings and press releases are available on the Company's website. All of the above information is made available on the Company's website within one day of public release, and is emailed to all shareholders who lodge their email contact details with the Company. Information on lodging email addresses with the Company is available on the Company's website.

B. Corporate governance (continued)

Principle 7 - Recognise and manage risk

Risk assessment and management

Bradken is committed to managing risk to protect it's people, the environment, Group assets, the community and it's reputation. Bradken operates an Enterprise Risk Management process consistent with international standards to manage it's business risk. This risk-based system helps the Group operate effectively and efficiently, achieve business objectives, ensure reliable reporting and comply with applicable laws and regulations.

The Board implements this policy by overseeing the establishment and implementation of the risk management system through the Audit and Risk Committee, reviewing the effectiveness of the Group's implementation of that system.

A copy of the Group's Risk Management Policy is available on the Company website.

Not all aspects of risk management can be formalised and Bradken places considerable reliance on the skill, experience and judgement of its people to make risk based decisions within the policy framework, and to communicate openly on all risk related matters.

Corporate reporting

The Managing Director and the CFO have made the following certifications to the Board:

- that the Group’s financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Group's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Principle 8 - Remunerate fairly and responsibly

Human Resources Committee

The members of the Human Resources Committee during the year were:

Eileen Doyle (Chairman)

Nick Greiner

Phil Arnall

Vince O'Rourke - retired 23 October 2012

Details of these directors attendance at Committee meetings are set out in the directors' report on page 6.

The Human Resources Committee operates in accordance with its charter which is available on the Company website. The Human Resource Committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for the executive directors, other senior executives and non-executive directors.

The committee also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions. This includes overseeing processes in relation to meeting diversity objectives for executives and staff below board level.

Further information on directors’ and executives’ remuneration, including principles used to determine remuneration, is set out in the Directors’ report under the heading ‘Remuneration Report’.

C. Review of operations

Operating and Financial Review

	2013	2012	Change
NPAT	$66.9m	$100.5m	(33%)
EBITDA	$183.6m	$220.4m	(17%)
Underlying NPAT	$96.1m	$100.5m	(4%)
Underlying EBITDA	$214.0m	$219.2m	(2%)
Underlying EBITDA margin	16.2%	15.1%	
Sales revenue	$1,313.1m	$1,451.3m	(10%)
Operating cash flow	$217.6m	$121.2m	80%
Earnings per share	39.6 cents	60.5 cents	(35%)
Dividends per share	38.0 cents	41.0 cents	(7%)

The Group recorded a net profit after tax for the year ended 30 June 2013 of $66.9 million, however this included a one-off pre-tax charge of $30.4 million relating to the Federal Court proceedings associated with the Norcast acquisition. While statutory EBITDA was $183.6 million, underlying EBITDA before the costs resulting from the Federal Court action was $214.0 million, a decrease of only 2% on the previous year. This result was achieved in a quietening market, but with sales down only 10% to $1,313.1 million, demonstrating the strength of the Group's consumable products focus and the defensibility of its margins.

Operating cash flow before capital expenditure for the year was $217.6 million, an improvement of 80% over the previous period. The improvement was driven by working capital reductions of $79 million and reductions in tax payments, however the results included $26.7 million of cash costs relating to the Federal Court proceedings. Net capital expenditure was $96.7 million for the year, down from $131.9 million in the previous year.

Net debt levels decreased to $425.3 million from $442.8 in the previous year. The reduction in debt was achieved after allowing for the Federal Court action costs of $26.7 million and the depreciation in the AUD against the USD during May and June which resulted in an additional $28.8 million on translation of the Group's USD denominated debt. The Group's gearing remains conservative at 2.0 times (net debt / EBITDA) and unchanged from the gearing level at the end of the previous year.

In December 2012, the Group successfully commissioned a world class 20,000 tonne foundry in Xuzhou, China with the foundry producing resources-related consumable products during the start-up production phase. This facility will be a cornerstone for future growth.

Mining Products Division

The Mining Products Division supplies consumable wear products to the global mining industry. Products include ground engaging tools (GET), Crawler System products for hydraulic mining excavators and electric rope shovels and wear solutions for mining fixed plant equipment including plate, block, rubber and ceramic products. These are produced in the Group's manufacturing facilities in Australia, China, Canada, the USA and the UK. The Division also produces wear pipe products and fabrications for customers in the northern oil sands region of Alberta, Canada and has foundry capacity in the United Kingdom to serve the European markets.

A fall in commodity prices during the year led to a slowdown in capital and maintenance spending along with destocking in Australia and global markets. Despite difficult market conditions, sales revenue of $413m was 4% higher than the prior year and the gross margin increased from 33.1% to 34.1%.

Ground Engaging Tools global sales increased due to the uptake of the new range of GET products in both Australia and overseas markets. The increase reflected the strong market penetration of the new product range as well as the fact that although capital expenditure by miners slowed, production volumes were up on the previous year, which increased the demand for the Division's consumable mining products.

Crawler Systems sales increased, attributable to higher sales to Original Equipment Manufacturers' ("OEM") customers as well as growth in direct aftermarket sales in Australia and Europe. The lower prices for mining commodities saw a reduction in capital expenditure on new mining equipment that adversely impacted order intake and sales of Crawler System products particularly in the second half.

The Fixed Plant business sales revenue was down with Australian sales reduced 14% due to lower capital project activity in the Western Australia iron ore market and cutbacks in spending by major mining companies.

The Canadian Oil & Gas business sales were up 6% over F12 with a second half rebound in wear pipe sales and more project work from the oil sands secured in 2H13.

C. Review of operations (continued)

Operating and Financial Review (continued)

Mineral Processing Division

The Mineral Processing Division is a global manufacturer of custom designed products for grinding mills, crushing and conveying equipment for the hard rock mining industry and operates a metal recycling business that purchases and processes steel feed for the Group's foundries. The Division's customers include the world's largest mining companies and some OEMs, with products supplied to mining operations on five continents and over 30 countries. Products are manufactured in the Division's manufacturing facilities in Australia, Malaysia and Canada as well as obtained from other Group facilities in Australia, China, the USA and the UK. The Division is the market leader in the manufacture of grinding mill liners.

Sales of $250 million were in line with the previous year with gross margin increasing from 35.4% to 37.7%. The margin gains were achieved through excellent operational performance at the Mont Joli, Canada facility, the introduction of new differentiated products into target markets and the rationalisation of many products into the optimal plant of manufacture. This resulted in a strong improvement in the quality of earnings with the additional margin more than offsetting a moderate increase in overheads that included an increase in regional selling and product development resources in line with plans to continue growing the business in the world's major mining regions.

Engineered Products Division

The Engineered Products Division is a leading North American manufacturer of large, highly-engineered steel castings and differentiated consumable products to the mining, resource, transportation, and energy industries. The Division is a leader in the North American market for highly engineered steel castings greater than 4,500 kilograms.

Overall, sales of $309 million were down approximately 11% on the prior financial year. This net change resulted from a significant second half decline due to deteriorating market conditions. The Division responded to the reduction in demand in the second half by realigning workforce levels and reducing fixed costs and discretionary expenses to align with the current period of slower economic activity.

Annual sales in the Industrial Product's business, the largest portion of the Engineered Products Division, were impacted by a softening of demand in the mining and rail locomotive sectors, with sales declining for the year compared to the previous year. This was driven primarily by a reduction in second half sales from the comparable period in F12 after experiencing an increase in the first half. This reduced customer demand and excess industry capacity will continue to create a very competitive marketplace in the near term.

The Energy business' annual sales declined in the first half but rebounded in the second half of the financial year. The market remains highly competitive with pressure on pricing of products and services.

Rail Division

The Rail Division's products are used by customers in Australia to move more than 320 million tonnes of product annually. This represents more than one third of Australia's total mineral production. The Division is renowned for the supply of high quality rollingstock equipment and parts for mining, agricultural and general freight markets. At present, about 85% of the Division's sales are in rollingstock manufactured for the Australian market, while the remaining 15% is represented by parts sales into the same market. During F13, the Rail Division produced 1,070 rail cars in the Xuzhou manufacturing facility in China. This represented a 48% volume reduction on the prior year and is reflective of the general down-turn in the resources sector.

Overall, sales of $223 million were down approximately 33% on the prior financial year. The Division's margins have improved over the last 12 months with a return to more traditional iron ore and coal wagon manufacture. Notwithstanding the lower volumes, profitability significantly improved as a consequence of the disciplined and deliberate execution of the Division's "Contain and Consolidate" business plan.

Business Strategies and Outlook

The difficult market conditions are expected to continue into 2014 particularly in the first half of the year. The main business strategy in these difficult conditions is to reduce both operating and overhead costs in line with the reduced activity levels and to reduce working capital and capital expenditure to maximise cash flow.

Management will continue to pursue opportunities to grow the existing business both organically and through acquisitions at the appropriate time, all the while maintaining a solid balance sheet and strategic focus consistent with the Group' s global business strategies.

C. Review of operations (continued)

Operating and Financial Review (continued)

Business Strategies and Outlook (continued)

The Group's business strategy remains focused on growing the mining consumables business by designing, manufacturing and selling differentiated consumable wear products throughout the major global mining regions. A number of discrete strategies will be implemented to aid this focus including:

- expanding our sales presence direct to mining customers throughout the world;
- new product design and innovation;
- further reducing manufacturing costs; and
- global distribution network to include targeted stock holdings in key mining regions to support direct sales.

Business Risks

The Group maintains a proactive Risk Management System, which identifies potential risks by site, business, region and function, by actively pursuing the minimisation of identified business interruption risks. While each of the Group's Divisions has its own discrete business risks, as a group, the Group's Executive Management Team identify high level business risks with the potential of having a material impact on the financial prospects of the Group.

A major risk to the Group is the high cost of manufacturing within Australia. The local environment suffers from high labour costs, high energy costs and regional scale manufacture, which may over time adversely affect the viability of manufacturing in Australia.

A further high level business risk with the potential of having a material impact on the financial prospects of the Group is the general economic and business conditions, both globally and domestically, particularly an extended pull-back in mining investment due to a slowdown in China, having the potential to produce significant fluctuations in demand for the Group's products and an impact on earnings potential.

The Group is continuing to address and mitigate these risks by globalising its manufacturing footprint and by growing its capabilities offshore. Most recently, stage one of the Group's new world-class manufacturing facility in Xuzhou, China was commissioned, which will substantially reduce the Group's average cost of production, particularly for mining and mineral processing products.

D. Remuneration report

The remuneration report is set out under the following main headings:

(a) Introduction
(b) Principles used to determine the nature and amount of remuneration
(c) Key management personnel remuneration disclosure
(d) Service agreements
(e) Share-based compensation
(f) Additional information

(a) *Introduction*

The information provided under headings (b) to (e) includes the remuneration disclosures that are required under the Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. Information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

This report details the Bradken Group's remuneration objectives, practices and outcomes for Non-executive Directors, the Managing Director / Chief Executive Officer and other key management personnel of the Group for the year to 30 June 2013.

Consistent with the Company's normal process, external consultants AON Hewitt were again contracted to provide remuneration advice to the Human Resources Committee. In the 2013 financial year AON Hewitt provided remuneration recommendations as defined in section 9B of the Corporations Act 2001 and was paid $25,000 for these services (2012: $26,500). AON Hewitt have confirmed the above recommendations were made free from undue influence by members of the Group's key management

There were no changes to the remuneration framework in the current period compared to the previous period.

Role of the Human Resources Committee

The Human Resources Committee is a committee of the Board. It is primarily responsible for making recommendations to the Board on:

- non-executive director fees
- remuneration levels of the managing director, executive directors and other key management personnel
- the over-arching executive remuneration framework and incentive plans.

Its objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the company. In doing this, the Human Resources Committee seeks advice from independent remuneration consultants.

The Corporate Governance Statement provides further information on the role of this committee.

Voting and comments made at the company's 2012 Annual General Meeting

Bradken Limited received more than 97% of "yes" votes on its remuneration report for the 2012 Financial year.

The company did not receive any specific feedback at the AGM. No other correspondence was received throughout the year pertaining to the remuneration report.

(b) *Principles used to determine the nature and amount of remuneration*

The objective of the Group's executive reward framework is to ensure reward for performance whilst maintaining competitiveness with the market and appropriateness for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives.

Alignment to participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

D. Remuneration report (continued)

(b) *Principles used to determine the nature and amount of remuneration (continued)*

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an “at risk” bonus provided in the form of cash, while the long-term incentive (LTI) is provided as rights over ordinary shares of Bradken Limited under the rules of the Performance Rights Plan (PRP).

No key management personnel has entered into any arrangement to limit the exposure or risk related to their remuneration.

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- AON Hewitt was engaged by, and reported directly to, the chair of the Human Resources Committee. The agreement for the provision of remuneration consulting services was executed by the chair of the Human Resources Committee under delegated authority on behalf of the board;
- The report containing the remuneration recommendations was provided by AON Hewitt directly to the chair of the Human Resources Committee; and
- AON Hewitt was permitted to speak to management throughout the engagement to understand Group processes, practices and other business issues and obtain management perspectives. However, AON Hewitt was not permitted to provide any member of management with a copy of their draft or final report that contained the remuneration recommendations.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

In addition to providing remuneration recommendations, AON Hewitt also provided advice on other aspects of the remuneration of the Group’s employees.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board also uses the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market.

(i) Directors' fees

The current base remuneration was last reviewed with effect from 1 October 2011. Total aggregate remuneration for all non-executive directors, last voted upon by shareholders in October 2011, is not to exceed $1,200,000 per annum and actual amounts payable to individual directors are determined after considering advice from external advisors and with reference to fees paid to other non-executive directors of comparable companies.

Directors’ base fees are presently $130,000 (2012: $130,000) per annum. The Chairman's fee is currently $280,000 (2012: $280,000) per annum. Non-executive directors do not receive performance related remuneration. Directors’ fees cover all main board activities and membership of any Board committee.

In recognition of the prevailing external economic market conditions, the Chairman, the Non-Executive Directors and the Chief Executive Officer have decided to voluntarily forego fee and salary increases in the period to June 30 2014.

(ii) Non-Executive Director Share Acquisition Plan

Non-executive directors may elect to have a percentage of their annual fixed directors’ fees provided in shares under the Non-Executive Director Share Acquisition Plan (NED plan). Participation in the NED plan is voluntary.

Executive pay

In addition to base pay, at risk short-term salary and benefits including superannuation , key management personnel are invited to participate in a long term (3 year) incentive scheme. The combination of these comprise total remuneration.

(i) Base pay and benefits

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion it includes contributions to employee superannuation funds.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market and reflects the individual's performance. An executive's pay is also reviewed on promotion.

Each year the Board sets the job goals for the Managing Director. The senior executives job goals are set and managed by the Managing Director. The job goals are focused on the growth of the business and generally include measures relating to the Group, the relevant business unit, and the individual, and include financial, people, customer, strategy and risk measures. The measures are chosen to directly align the individual's reward to the goals of the Group and to its strategy and performance.

D. Remuneration report (continued)

(b) *Principles used to determine the nature and amount of remuneration (continued)*

(ii) At risk short term salary

At the end of the financial year an assessment is made of the actual performance of the Group, the relevant business unit and the individual targets set at the beginning of the financial year. A percentage of the at risk short term salary is awarded depending on performance. At risk short term salary is not awarded where there is no year on year growth for the financial year.

The at risk short term salary is paid wholly on actual improvement in profitability. The value of the at risk short term salary payable is set within a range of 30% to 60% of the executive's total cash base remuneration depending on the position held by the executive. In calculating the at risk short term salary the growth in year on year NPAT is calculated and where applicable the EBITDA of the executive's business. To achieve the full at risk short term salary value a growth of 15% on the previous year profitability must be achieved.

The Human Resources Committee recommends the at risk short term salary to be paid to the Managing Director for approval by the Board. For other senior executives the Managing Director recommends the at risk short term salary to be paid, and seeks approval from the Human Resources Committee.

(iii) Long-term incentives - Performance Rights Plan

The Group's long-term incentive, the Performance Rights Plan, focuses on rewarding for long term growth and the retention of key people. Information on the Performance Rights Plan is set out on page 21.

The long-term incentive (LTI) is paid wholly on relative total shareholder return (TSR) performance over a 3 year period. The initial rights are provided based on a set range of 30% to 50% of the executive's total cash base remuneration depending on the position held by the executive. No rights vest to the executive if Bradken's TSR over a 3 year period is below 50% of the ASX Small Ordinaries Index and no re-testing occurs.

(c) *Key management personnel remuneration disclosure*

The key management personnel of Bradken Limited and the Group are the directors of Bradken Limited (see page 2), the Chief Financial Officer and the General Managers and Chief Operating Officer of the Bradken business units who report directly to the Managing Director. The executives are:

- Andrew Allen - *General Manager Corporate Development*
- Tom Armstrong - *Chief Operating Officer Engineered Products*
- Stephen Cantwell - *General Manager Rail*
- Steven Perry - *CFO and Company Secretary*
- Enda Sheridan - Executive *General Manager Mining Products*
- Brad Ward - *Executive General Manager Mineral Processing (appointed 1 July 2012)*

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Bradken Limited and the Bradken Limited Group are set out in the following tables.

The values in column (A) of each table below are remuneration as defined in Australian Accounting Standard AASB2 *Share-based payment*. This consists of share rights. These values are calculated based on a Black Scholes valuation of the rights in the year in which they are granted and are amortised over the performance period to which they relate, which is typically a 3 year period. The degree to which performance conditions will be met is unclear until the end of the relevant performance periods. There is no certainty performance conditions will be met and there is therefore no direct correlation of these values to the remuneration received by the executive in any period.

The values in column (B) of each table below shows the value of the rights that were granted to the executive for the performance periods 1 July 2010 to 30 June 2013 (2013) and 1 July 2009 to 30 June 2012 (2012).

For the performance period 1 July 2010 to 30 June 2013 the performance conditions were not met and no rights are eligible to vest for that period.

D. Remuneration report (continued)

2013

Name	Short-term employee benefits: Cash salary and fees $	Short-term employee benefits: At risk short term salary $	Short-term employee benefits: Non-monetary benefits $	Post-employment benefits: Super-annuation $	Long-term benefits: Long service leave accrued $	Share-based payment (A): Share Rights accrued in period $	Share-based payment (B): Share Rights to vest for period $
Non-executive directors							
Nick Greiner - *Chairman*	280,000	-	-	-	-	-	NIL
Phil Arnall	130,000	-	-	-	-	-	NIL
Eileen Doyle	119,266	-	-	10,734	-	-	NIL
Greg Laurie	119,266	-	-	10,734	-	-	NIL
Vince O'Rourke	62,500	-	-	-	-	-	NIL
Peter Richards	119,266	-	-	10,734	-	-	NIL
Sub-total non-executive directors	830,298	-	-	32,202	-	-	NIL
Executive directors							
Brian Hodges	1,334,924	-	9,429	74,864	40,048	456,979	NIL
Other key management							
Andrew Allen	399,083	-	3,860	29,150	11,972	112,930	NIL
Tom Armstrong	403,544	-	-	32,075	-	114,565	NIL
Stephen Cantwell	439,268	-	359	25,458	13,178	130,871	NIL
Steven Perry	388,734	-	-	25,266	11,662	63,372	NIL
Enda Sheridan	597,047	-	2,564	34,457	17,911	206,030	NIL
Brad Ward	431,856	-	2,404	27,291	12,956	109,076	NIL
*** Total key management compensation (group)**	4,824,754	-	18,616	280,763	107,727	1,193,823	NIL

* The payment of at risk short term salary has significantly reduced when compared to the previous year. In addition no share rights vested for the period. This is reflective of the quantum of year on year growth achieved and the current share price performance of Resource related stocks.

2012

Name	Short-term employee benefits: Cash salary and fees $	Short-term employee benefits: At risk short term salary $	Short-term employee benefits: Non-monetary benefits $	Post-employment benefits: Super-annuation $	Long-term benefits: Long service leave accrued $	Share-based payment (A): Share Rights accrued in period $	Share-based payment (B): Share Rights to vest for period $
Non-executive directors							
Nick Greiner - *Chairman*	277,500	-	-	-	-	-	NIL
Phil Arnall	128,750	-	-	-	-	-	NIL
Eileen Doyle	118,119	-	-	10,631	-	-	NIL
Greg Laurie	118,119	-	-	10,631	-	-	NIL
Vince O'Rourke	128,750	-	-	-	-	-	NIL
Peter Richards	118,119	-	-	10,631	-	-	NIL
Sub-total non-executive directors	889,357	-	-	31,893	-	-	NIL
Executive directors							
Brian Hodges	1,276,276	392,901	8,631	50,693	38,288	329,234	NIL
Other key management							
Andrew Allen	374,456	80,028	3,605	33,701	11,234	81,537	NIL
Tom Armstrong	381,202	125,904	-	18,089	-	148,800	NIL
Bruce Arnott**	296,737	-	3,031	37,630	8,902	68,067	NIL
Stephen Cantwell	450,344	43,742	-	37,344	13,510	53,967	NIL
Steven Perry***	261,744	51,971	-	25,100	7,852	27,473	NIL
Enda Sheridan	575,399	126,069	2,409	25,276	17,262	151,410	NIL
*** Total key management compensation (group)**	4,505,515	820,615	17,676	259,726	97,048	860,488	NIL

** Bruce Arnott retired on 30 November 2011, values reported are for the period 1 July to 30 November 2011.

*** Steven Perry was appointed Chief Financial Officer on 1 December 2011. Before this appointment he was Senior Commercial Manager of the Group's Mining business. The amounts shown above include all Mr Perry's remuneration during the reporting period. Amounts received as Chief Financial Officer were Cash Salary $192,661, Bonus $51,971, Superannuation $17,339, Long Service Leave $5,780 and Share Rights $22,585.

D. Remuneration report (continued)

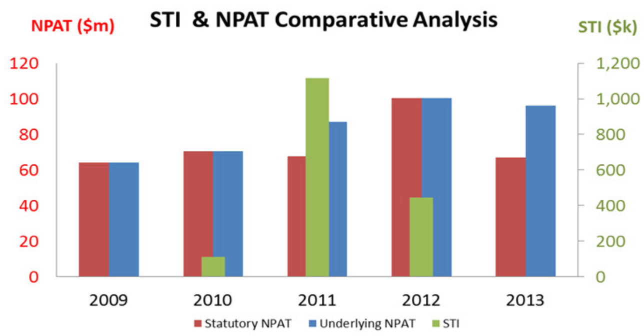
Relationship between remuneration and Bradken Limited's performance

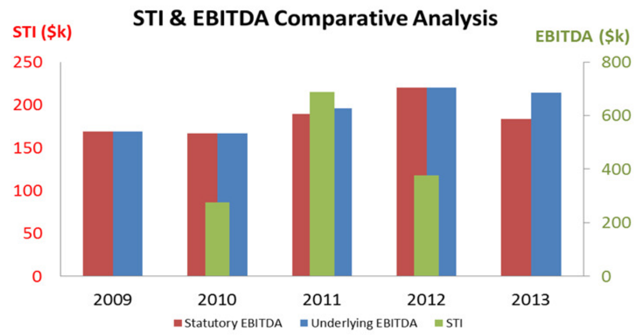
The following table shows key performance indicators for the group over the last five years:

	2009	2010	2011	2012	2013
Unadjusted EBITDA ($'000)	169,098	167,034	189,422	220,402	183,604
Underlying EBITDA ($'000)	169,098	167,034	196,059	220,402	214,016
Profit for the year attributable to owners of Bradken Limited ($'000)	64,268	70,441	67,561	100,533	66,937
Underlying profit for the year attributable to owners of Bradken Limited ($'000)	64,268	70,441	87,082	100,533	96,054
Basic earnings per share (cents)	52.5	54.1	47.6	60.5	39.6
Dividends ($'000)	28,856	46,009	59,821	68,747	64,311
Dividend payout ratio (%)	44.9%	65.3%	88.5%	68.4%	96.1%
BKN Y/E Share Price ($'s)	4.31	7.20	7.96	5.19	4.31
Increase/(decrease) in share price (%)	-50%	67%	11%	-35%	-17%
Total KMP incentives as percentage of profit/ (loss) for the year (%)	1.1%	1.8%	4.1%	1.7%	1.8%

Dividends shown above and the payout ratio calculated is in respect to profit earned for the year.

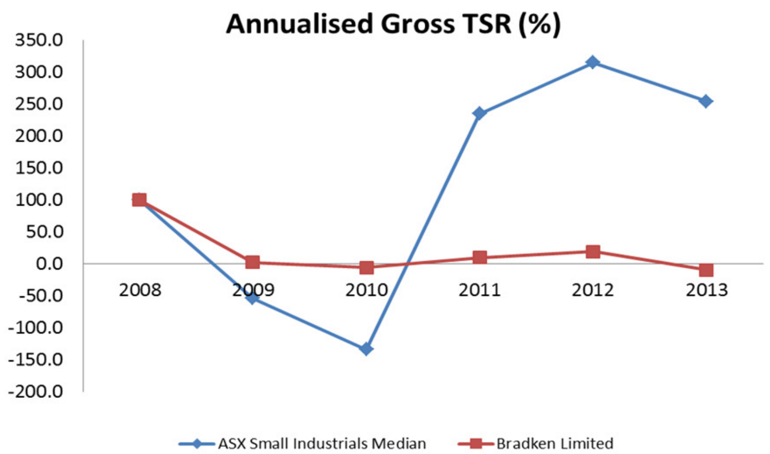
The graphs below illustrate two of the key links between key management personnel remuneration and Bradken Limited's performance.
The first two graphs illustrate the link between Bradken Limited's net profit before tax and EBITDA, both unadjusted and underlying, compared to payments made under the STI plan. In the 2011 year STI payouts were calculated against underlying NPAT and underlying EBITDA.





* Profit before tax is profit from continuing operations before income tax expense.
** STI % of target reflects the percentage of the target STI pool that was paid out to executives.

The last graph illustrates the operation of the long-term incentive plan by comparing Bradken Limited's TSR performance to the median TSR of the ASX Small Industrials Index (see page 22 below) over the last five years.



D. Remuneration report (continued)

(d) *Service agreements*

Remuneration and other terms of employment for the Managing Director and key management personnel required to be disclosed under the *Corporations Act 2001* are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including, but not limited to, motor vehicles and participation, when eligible, in the Bradken Performance Rights Plan. Other major provisions of the agreements relating to remuneration are set out below.

Name	Term of Agreement	* Base salary including superannuation	** Termination Benefit
Brian Hodges, *Managing Director*	Ongoing commencing 2 July 2004	$1,426,118	6 months base salary
Andrew Allen, *General Manager Corporate Development*	Ongoing commencing 1 September 2011	$432,390	3 months base salary
Steven Perry, *Chief Financial Officer and Company Secretary*	Ongoing commencing 1 December 2011	$432,000	3 months base salary
Tom Armstrong, *Chief Operating Officer Engineered Products*	Ongoing commencing 25 October 2006	$455,372	12 months base salary
Stephen Cantwell, *General Manager Rail*	Ongoing commencing 1 July 2011	$468,135	6 months base salary
Enda Sheridan, *Executive General Manager Mining Products*	Ongoing commencing 17 June 2009	$637,635	3 months base salary
Brad Ward, *Executive General Manager Mineral Processing*	Ongoing commencing 1 July 2012	$403,650	3 months base salary

* Base salaries quoted are as at 30 June 2013; they are reviewed annually by the Human Resources Committee.

** Termination benefits are payable on early termination by the company, other than for gross misconduct; unless otherwise indicated, they are equal to the base salary for the remaining term of the agreement.

(e) *Share-based compensation*

Non-Executive Director Share Acquisition Plan

Non-executive directors may elect to have a proportion of their quarterly directors' fees provided as shares under the NED Plan. Participation in the plan is voluntary.

Non-executive directors are not able to sell or otherwise dispose of the shares until the earliest of 10 years after acquisition or when the non-executive director ceases to be a director of the Company (except in very limited circumstances). During this period the shares are subject to a holding lock. No shares were issued under the NED plan in the financial period.

Rights

The Performance Rights Plan (PRP) is the Company's long-term incentive (LTI) scheme for selected key executives. The Managing Director recommends the list of executives who are entitled to participate in this scheme and seeks approval of the list from the Human Resources Committee which is then ratified by the Board. Under the PRP, eligible executives may be granted Performance Rights (each being a right to acquire a share, subject to the satisfaction of exercise conditions) on terms and conditions determined by the Board and as documented in the PRP Plan rules and Trust Deed. If the exercise conditions are satisfied, the Performance Rights may be exercised and the shares issued and delivered to the executive. The Board may impose restrictions on the disposal of the shares and implement procedures to enforce the restrictions.

The rules of the PRP provide that the Board may determine a price that is payable to exercise a Performance Right, or that no amount is payable by the executive upon exercise of the Right.

If any additional persons become entitled to participate in the PRP and their participation requires approval under Chapter 10 of the Listing Rules, they will not participate in the PRP until shareholder approval is received pursuant to Listing Rule 10.14.

Mr Brian Hodges, being the only Executive Director of the Company, is the only Director entitled to participate in the PRP. If any other Director is to participate in the PRP, the Company will seek shareholder approval required by the ASX Listing Rules.

The performance conditions are based on the relative total shareholder return (TSR) of the Company measured against other companies in the ASX Small Industrials Index during the performance period. TSR measures the total return on investment of a share taking into account capital appreciation, capital return and dividend income.

D. Remuneration report (continued)

(e) *Share-based compensation (continued)*

The TSR performance conditions in relation to the grants issued are:

Target	Percentage of Rights available in given year to vest
The Company's TSR does not meet performance of the median Company in ASX Small Cap	0
The Company's TSR equals or exceeds performance of the median Company in ASX Small Cap	50
The Company's TSR ranked in third quartile of companies in ASX Small Cap	Pro rata between 50 and 100
The Company's TSR ranked in fourth quartile of companies in ASX Small Cap	100

In assessing whether the performance hurdles have been met, the Human Resources Committee receives independent data from an investment bank which provides both the Company's TSR from previous financial years and that of the ASX Small Industrials Index. The Company's performance against the hurdle is then determined with each Company in the ASX Small Industrials Index and Bradken being ranked in order of TSR in results from previous financial years. The Company's percentile ranking is determined by aggregating the weighting within the ASX Small Industrials Index (based on market capitalisation) of each company ranked below Bradken. The method of assessment was chosen as it provides the Committee with an objective means of measuring the Company's performance against its peer group. Once vested the performance rights remain exercisable for a period of ten years or the final test date depending on the conditions of the grant.

Dividends, changes in share price, and return of capital are included in the TSR calculation which is the only performance criteria assessed for the PRP scheme. The terms and conditions of each grant of Rights affecting remuneration in the previous, this or future reporting periods are as follows:

Grant Date	Exercise price	Fair value per Right	Performance Period	Test Date (date vested and exercisable)	Expiry Date
29 October 2009	$0.00	$4.41	1 Jul 09 to 30 Jun 12	Result announcement y/e 12	Final Test Date
5 November 2010	$0.00	$5.13	1 Jul 10 to 30 Jun 12	Result announcement y/e 12	Final Test Date
5 November 2010	$0.00	$6.12	1 Jul 10 to 30 Jun 13	Result announcement y/e 13	Final Test Date
7 October 2011	$0.00	$4.76	1 Jul 11 to 30 Jun 14	Result announcement y/e 14	Final Test Date
7 October 2011	$0.00	$4.76	1 Jul 11 to 30 Jun 14	Result announcement y/e 13	Final Test Date
7 October 2011	$0.00	$4.76	1 Jul 11 to 30 Jun 14	Result announcement y/e 14	Final Test Date
23 October 2012	$0.00	$2.84	1 Jul 12 to 30 Jun 13	Result announcement y/e 13	Final Test Date
23 October 2012	$0.00	$3.39	1 Jul 12 to 30 Jun 14	Result announcement y/e 14	Final Test Date
23 October 2012	$0.00	$2.84	1 Jul 12 to 30 Jun 13	Result announcement y/e 13	Final Test Date
23 October 2012	$0.00	$3.39	1 Jul 12 to 30 Jun 15	Result announcement y/e 15	Final Test Date

New entrants to the scheme are provided with a transition to the 3 year plan. Rights granted under the PRP carry no dividend or voting rights.

Details of Rights over ordinary shares in the Company provided as remuneration to each director of Bradken Limited and each of the key management personnel are set out below. When exercisable, each Right is convertible into one ordinary share of Bradken Limited. Further information on the Rights is set out in note 35 to the financial statements.

Number of Rights granted and vested and Shares provided during the year on exercise of Performance Rights

Details of Rights granted and vested and ordinary shares in the Company provided as a result of the exercise of Performance Rights to the Managing Director of Bradken Limited and each of the key management personnel and other executives of the Group required to be disclosed under the *Corporations Act 2001* are set out below.

Name	**Number of Rights granted during the year**	**Number of Rights vested during the year**	**Number of ordinary shares issued on exercise of Rights during the year**	**Value at exercise date ***
Directors of Bradken Limited				
Brian Hodges	**141,021**	**0**	**36,521**	**$ 225,335**
Other key management personnel of the Group				
Andrew Allen	**34,205**	**0**	**0**	**$ -**
Tom Armstrong	**39,334**	**0**	**0**	**$ -**
Stephen Cantwell	**49,377**	**0**	**0**	**$ -**
Steven Perry	**34,175**	**0**	**0**	**$ -**
Enda Sheridan	**63,052**	**0**	**0**	**$ -**
Brad Ward	**39,915**	**0**	**0**	**$ -**

* The value at exercise date is deemed to be the closing price of the security on the date exercised.

No amounts were payable on the exercise of Rights during the period.

D. Remuneration report (continued)

(e) *Share-based compensation (continued)*

The assessed fair value at grant date of Rights granted to the individuals is allocated equally over the financial periods in which the Rights may vest, and the amount is included in the remuneration tables above. Fair values at grant date are determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the Right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the Right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the Right.

Principles used to determine the nature and amount of remuneration: relationship between remuneration and Company performance

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year.

Details of share remuneration: Rights

For each grant of Rights included in the tables on pages 19 to 23, the percentage of the available Right that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the performance criteria is set out below. The Rights vest over a period up to three years, provided the vesting conditions are met (see page 21). Rights not vested when performance hurdles are not met do not carry forward to future periods.

(f) *Additional information*

	Rights						
Name	**Financial year granted**	**Vested in prior years % ***	**Vested in current year % ***	**Forfeited (A) %**	**Financial years in which Rights may vest**	**Minimum total value of grant yet to vest (B) $**	**Maximum total value of grant yet to vest (C) $**
Andrew Allen	2013	-	-	-	30/06/2016	-	147,424
	2012	-	-	-	30/06/2015	-	89,398
	2011	-	-	-	30/06/2014	-	87,398
	2010	-	-	100	30/06/2013	-	-
Tom Armstrong	2013	-	-	-	30/06/2016	-	169,530
	2012	-	-	-	30/06/2015	-	83,269
	2011	-	-	-	30/06/2014	-	83,377
	2011	61	-	39	30/06/2013	-	-
	2010	61	-	39	30/06/2013	-	-
	2010	-	-	100	30/06/2013	-	-
Stephen Cantwell	2013	-	-	-	30/06/2016	-	159,612
	2013	-	-	-	30/06/2014	-	53,203
	2012	-	-	-	30/06/2015	-	73,296
	2012	-	-	-	30/06/2014	-	48,867
Brian Hodges	2013	-	-	-	30/06/2016	-	607,801
	2012	-	-	-	30/06/2015	-	365,760
	2011	-	-	-	30/06/2014	-	344,326
	2010	-	-	100	30/06/2013	-	-
Steven Perry	2013	-	-	-	30/06/2016	-	147,294
	2012	-	-	-	30/06/2015	-	29,144
	2011	-	-	-	30/06/2014	-	29,631
	2010	-	-	100	30/06/2013	-	-
Enda Sheridan	2013	-	-	-	30/06/2016	-	271,754
	2012	-	-	-	30/06/2015	-	164,793
	2011	-	-	-	30/06/2014	-	156,587
	2010	-	-	100	30/06/2013	-	-
Brad Ward	2013	-	-	-	30/06/2016	-	172,034
	2012	-	-	-	30/06/2015	-	73,546
	2011	-	-	-	30/06/2014	-	77,955
	2010	-	-	100	30/06/2013	-	-

A= The % of rights that failed to vest in the period as the performance criteria were not met.

B= The minimum value of Rights yet to vest is nil as the performance criteria may not be met and consequently the Right may not vest.

C= The maximum value of rights yet to vest is not determinable as it depends on the market price of shares of Bradken Limited on the Australian Stock Exchange at the date the right is exercised. The maximum values presented above are based on the closing share price at 30 June 2013 of $4.31.

D. Remuneration report (continued)

(f) *Additional information (continued)*

Share based compensation: Rights

Further details relating to rights are set out below.

Name	A Remuneration consisting of Rights	B Value at grant date $	C Value at exercise date $	D Value at lapse date $
Andrew Allen	20.3%	115,955	-	122,957
Tom Armstrong	20.8%	133,342	-	163,280
Stephen Cantwell	21.5%	160,599	-	-
Brian Hodges	23.8%	478,061	225,335	633,587
Steven Perry	13.0%	115,853	-	54,524
Enda Sheridan	24.0%	213,746	-	282,747
Brad Ward	18.7%	135,312	-	146,037

A= The percentage of the value of remuneration consisting of Rights, based on the value at grant date set out in column B. Remuneration percentage refers to the AASB 2 Share-based payment values reported in the table in section (b) above and does not correlate to the remuneration received by the executive in the period.

B= The value at grant date calculated in accordance with AASB 2 *Share-based payment* of Rights granted during the year as part of remuneration.

C= The value at exercise date of Rights that were granted as part of remuneration and were exercised during the year.

D= The value at lapse date of Rights that were granted as part of remuneration and that lapsed during the year.

Shares under Performance Rights

Unissued shares of Bradken Limited under Performance Right at the date of this report are as follows:

Date Rights granted	Expiry date	Exercise price	Number of shares under right
18 November 2005	Ten years from Test Date	Nil	10,344
30 October 2006	Ten years from Test Date	Nil	7,340
30 October 2006	Ten years from Test Date	Nil	14,993
31 October 2007	Ten years from Test Date	Nil	3,353
17 October 2008	Ten years from Test Date	Nil	116
17 October 2008	Ten years from Test Date	Nil	12,690
5 November 2010	Final Test Date	Nil	23,988
5 November 2010	Final Test Date	Nil	543,929
7 October 2011	Final Test Date	Nil	619,410
7 October 2011	Final Test Date	Nil	17,877
23 October 2012	Final Test Date	Nil	61,369
23 October 2012	Final Test Date	Nil	1,122,908

All Rights expire on the earlier of their expiry date, their exercise, their failure to meet exercise conditions or termination of the employee's employment. In addition, the ability to exercise the Rights is conditional on the Group achieving certain performance hurdles related to relative total shareholder return to the ASX Small Cap Industrial index.

Further details are included in the Remuneration Report above.

Shares purchased on exercise of Rights

The following ordinary shares of Bradken Limited were bought on market during the year ended 30 June 2013 on exercise of Rights granted under the Performance Rights Plan. No further shares have been bought since that date.

Date Rights granted	Exercise price of right	Number of shares purchased
17 October 2008	0.00	36,521

E. Other information

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or Group are important.

Details of the amounts paid to auditors for audit and non-audit services provided during the year are set out below.

The Board of directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2013	2012
	$	$
Other assurance services		
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under *Corporations Act 2001*	**409,550**	444,234
Related practices of PricewaterhouseCoopers Australian firm	**389,601**	619,044
Non-PricewaterhouseCoopers audit firm (Deloittes NZ)	**22,821**	28,351
Non-PricewaterhouseCoopers audit firm (Grant Thornton US)	**290,000**	249,564
Total remuneration for audit services	**1,111,972**	1,341,193
2. Other assurance services		
PricewaterhouseCoopers Australian firm:		
Accounting services	**26,000**	25,856
Related practices of PricewaterhouseCoopers Australian firm		
Accounting services	**68,431**	23,100
Non-PricewaterhouseCoopers audit firm (Ernst & Young China)		
Transfer pricing services	**21,599**	-
Non-PricewaterhouseCoopers audit firm (Fubang China)		
Capital verification services	**-**	2,404
Total remuneration for other assurance services	**116,030**	51,360
Total remuneration for assurance services	**1,228,002**	1,392,553
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services, including review of Company income tax returns	**344,860**	454,225
Related practices of PricewaterhouseCoopers Australian firm	**74,694**	136,149
Non-PricewaterhouseCoopers audit firm (Deloittes NZ)	**13,487**	11,307
Non-PricewaterhouseCoopers audit firm (KPMG US)	**397,254**	430,417
Non-PricewaterhouseCoopers audit firm (Ernst & Young Malaysia)	**3,461**	-
Non-PricewaterhouseCoopers audit firm (Tianrui China)	**-**	685
Non-PricewaterhouseCoopers audit firm (PT The Practice Indonesia)	**-**	860
Non-PricewaterhouseCoopers audit firm (WK Wilton South Africa)	**-**	3,771
Total remuneration for taxation services	**833,756**	1,037,414

E. Other information (continued)

Insurance of officers

During the year, the Company paid a premium to insure the directors and secretaries of the Company and its Australian-based controlled entities, the general managers of each of the businesses, all executive officers of the Group and of any related body corporate against a liability incurred by such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The independent Non-Executive Directors who are not individual parties to the proceedings in the Federal Court of Australia brought by Norcast (Pala Investments) (being proceedings number VID 356 of 2012), have obtained independent legal advice concerning those proceedings. The independent Non-Executive Directors are of the view that the interests of the Company and each of the Directors are aligned in pursuing a successful appeal. The independent Non-Executive Directors are of the view that Mr Hodges and Mr Greiner were acting in good faith in relation to the conduct, the subject of the proceedings and accordingly if there is no available claim that can be made against an insurer of Mr Hodges and Mr Greiner, the Deeds of Indemnity will then operate to indemnify Mr Hodges and Mr Greiner in connection with the proceedings.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify any officer of the Group or of any related body corporate against a liability incurred by any such officer.

Proceedings on behalf of the Company

No person has applied to the court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of these proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001.*

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 27.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewatehouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001.*

This report is made in accordance with a resolution of the directors:

Nick Greiner
Chairman

Brian Hodges
Managing Director

Sydney
12 August 2013

Auditor's Independence Declaration

As lead auditor for the audit of Bradken Limited for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Bradken Limited and the entities it controlled during the period.

John Campion
Partner
PricewaterhouseCoopers

Newcastle
12 August 2013

PricewaterhouseCoopers, ABN 52 780 433 757
PricewaterhouseCoopers Centre, 26 Honeysuckle Drive, PO Box 798, NEWCASTLE NSW 2300
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Contents

This financial report covers the consolidated entity consisting of Bradken Limited and its subsidiaries. The financial report is presented in the Australian currency.

Bradken Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

20 McIntosh Drive

Mayfield West NSW 2304

A description of the nature of the consolidated entity's principal activities and an operating and financial review is included on page 2 and pages 13 to 15 respectively of the directors' report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 12 August 2013. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.bradken.com.au.

	Notes	2013 $'000	2012 $'000
Revenue from continuing operations	5	**1,317,442**	1,456,081
Cost of sales		**(1,035,554)**	(1,154,016)
Gross profit		**281,888**	302,065
Other income	5	**14,570**	2,017
Selling and technical expenses		**(60,726)**	(57,803)
Administration expenses	5	**(110,089)**	(76,681)
Finance costs	5	**(31,501)**	(33,785)
Share of net profit of associates accounted for using the equity method		**9,847**	2,826
Profit before income tax		**103,989**	138,639
Income tax expense	6	**(37,052)**	(38,106)
Profit for the year		**66,937**	100,533
Profit is attributable to:			
Owners of Bradken Limited		**66,937**	100,533
		66,937	100,533

		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per ordinary share: (cents per share)	34	**39.6**	60.5
Diluted earnings per ordinary share: (cents per share)	34	**39.1**	59.8

The above consolidated income statement should be read in conjunction with the accompanying notes.

	Notes	2013 $'000	2012 $'000
Profit for the period		**66,937**	100,533
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of available-for-sale financial assets	23(a)	**-**	(33,061)
Changes in the fair value of cash flow hedges	23(a)	**1,154**	(3,382)
Exchange differences on translation of foreign operations	23(a)	**37,972**	16,850
Income tax relating to these items	6(d)	**(346)**	10,933
Items that will not be reclassified to profit or loss			
Actuarial (losses) / gains on retirement benefit obligations	23(b)	**3,365**	(8,364)
Other comprehensive income for the period, net of tax		**42,145**	(17,024)
Total comprehensive income for the period		**109,082**	83,509
Total comprehensive income for the period is attributable to:			
Owners of Bradken Limited		**109,082**	83,509
		109,082	83,509

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Notes	2013 $'000	2012 $'000
Current assets			
Cash and cash equivalents	7	**92,489**	101,892
Receivables	8	**167,810**	220,911
Other receivables and other assets	9	**453**	402
Inventories	10	**266,926**	308,113
Current tax assets		**11,794**	7,150
Derivative financial instruments	11	**12,897**	-
Total current assets		**552,369**	638,468
Non-current assets			
Receivables	8	**2,880**	1,873
Other receivables and other assets	9	**5,078**	5,323
Property, plant and equipment	12	**616,225**	533,180
Deferred tax assets	13	**6,059**	17,973
Intangible assets	14	**382,739**	362,428
Investments accounted for using the equity method	16	**49,261**	38,521
Total non-current assets		**1,062,242**	959,298
Total assets		**1,614,611**	1,597,766
Current liabilities			
Payables	17	**197,029**	203,245
Borrowings	19	**29,283**	6,047
Current tax liabilities		**3,004**	6,198
Provisions	18	**52,850**	48,159
Derivative financial instruments	11	**2,310**	3,650
Total Current Liabilities		**284,476**	267,299
Non-current liabilities			
Payables	17	**8,231**	7,438
Borrowings	19	**494,749**	543,924
Deferred tax liabilities	21	**43,882**	38,158
Provisions	18	**17,963**	21,497
Total non-current liabilities		**564,825**	611,017
Total liabilities		**849,301**	878,316
Net assets		**765,310**	719,450
Equity			
Contributed equity	22	**542,071**	538,562
Reserves	23(a)	**29,145**	(13,007)
Retained earnings	23(b)	**194,094**	193,895
Capital and reserves attributable to owners of Bradken Limited		**765,310**	719,450
Total equity		**765,310**	719,450

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

		Attributable to owners of Bradken Limited			
		Contributed Equity	Reserves	Retained earnings	Total
	Notes	$'000	$'000	$'000	$'000
Total equity at the beginning of the financial year 1 July 2011		**489,243**	**(6,386)**	**168,206**	**651,063**
Profit for the year		**-**	**-**	**100,533**	**100,533**
Other comprehensive income		**-**	**(8,660)**	**(8,364)**	**(17,024)**
Total comprehensive income for the year as reported in the 2012 financial statements		**-**	**(8,660)**	**92,169**	**83,509**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	22	(700)	-	-	**(700)**
Dividends provided for or paid	23	50,019	-	(66,480)	**(16,461)**
Employee share rights - value of employee services	35	-	2,039	-	**2,039**
Employee share rights - transfer on exercise of options	35	-	-	-	**-**
		49,319	2,039	(66,480)	(15,122)
Balance at 30 June 2012		**538,562**	**(13,007)**	**193,895**	**719,450**
Profit for the year		**-**	**-**	**66,937**	**66,937**
Other comprehensive income		**-**	**38,780**	**3,365**	**42,145**
Total comprehensive income for the year		**-**	**38,780**	**70,302**	**109,082**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	23	11,505	-	(70,103)	**(58,598)**
On-market share buyback and cancellation		(8,014)	-	-	**(8,014)**
Deferred tax adjustment for previously booked placement costs		18	-	-	**18**
Employee share rights - value of employee services	35	-	3,372	-	**3,372**
		3,509	3,372	(70,103)	(63,222)
Balance at 30 June 2013		**542,071**	**29,145**	**194,094**	**765,310**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	Notes	2013 $'000	2012 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,593,602**	1,557,394
Payments to suppliers and employees (inclusive of goods and services tax)		**(1,317,272)**	(1,351,233)
Transaction costs relating to acquisition of subsidiary and acquisition of business		**(16)**	(1,017)
		276,314	205,144
Interest received		**254**	369
Interest paid		**(30,440)**	(31,976)
Income taxes paid		**(28,493)**	(52,296)
Net cash (outflow) inflow from operating activities	32	**217,635**	121,241
Cash flows from investing activities			
Payment for property, plant and equipment		**(103,835)**	(122,887)
Payment for purchase of subsidiary, net of cash acquired		**-**	(195,792)
Payment for businesses		**(3,412)**	(382)
Payment for available for sale financial assets	15	**-**	(671)
Increase in investments by way of share purchases	30	**(5,877)**	-
Proceeds from sale of available for sale financial assets	15	**-**	681
Proceeds from sale of property, plant and equipment		**18,698**	4,418
Payment for capitalised design costs		**(8,145)**	(9,077)
Dividends received	30	**2,178**	1,725
Net cash (outflow) inflow from investing activities		**(100,393)**	(321,985)
Cash flows from financing activities			
Proceeds from issue of shares		**-**	19,853
Transaction costs from issue of shares		**-**	(167)
Payment of finance lease liabilities		**(10,872)**	(10,409)
Repayment of borrowings		**(326,234)**	(297,493)
Proceeds from borrowings		**272,144**	485,595
Dividends paid to company's shareholders	24	**(58,598)**	(36,314)
Payments for shares bought back	22	**(8,014)**	-
Net cash (outflow) inflow from financing activities		**(131,574)**	161,065
Net increase (decrease) in cash and cash equivalents		**(14,332)**	(39,679)
Cash and cash equivalents at the beginning of the year		**101,719**	143,056
Effects of exchange rate changes on cash and cash equivalents		**4,435**	(1,658)
Cash and cash equivalents at the end of the year	7	**91,822**	101,719
Financing arrangements	19		
Non-cash financing and investing activities	33		

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Contents to the notes to the consolidated financial statements

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistenty applied to all years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Bradken Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Bradken Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRSs

The consolidated financial statements of the Bradken Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

New and amended standards adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

However, amendments made to AASB 101 *Presentation of Financial Statements* effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bradken Limited (''company'' or ''parent entity'') as at 30 June 2013 and the results of all subsidiaries for the year then ended. Bradken Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Associates

Associates are all entities over which the group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The group's investment in associates includes goodwill identified on acquisition (refer to note 32).

The group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

1 Summary of significant accounting policies (continued)

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(iii) Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Bradken Limited.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director.

(d) Foreign currency translation

(i) Functional currency and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Bradken Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

1 Summary of significant accounting policies (continued)

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has passed the significant risks and rewards to the buyer.

(ii) Contract revenue

Contract revenue and expenses are recognised on an individual contract basis using the percentage of completion method when the stage of contract completion can be reliably determined, costs to date can be clearly identified, and total contract revenue and costs to complete can be reliably estimated.

The stage of completion is measured by reference to an assessment of components completed to date as a percentage of total components for each contract.

Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that the cost will be recovered, revenue is recognised to the extent of costs incurred. Where it is probable that a loss will arise on a contract, the excess of total costs over revenue is recognised immediately as an expense.

(iii) Interest income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

(iv) Sale of non-current assets

The gain or loss on disposal of non-current assets is included as other income or expense at the date control passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(v) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(vi) Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(m).

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

1 Summary of significant accounting policies (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Bradken Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Investment allowances

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 12). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term, if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Lease income from finance leases where the group is a lessor is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period (note 9). The respective lease receivable is included in the balance sheet.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

1 Summary of significant accounting policies (continued)

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Receivables

Trade receivables are recognised initially at fair value and subsequently, less provision for doubtful debts. Trade receivables are normally due for settlement no more than 30 days from the date of recognition. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the value of estimated future cash flows. The amount of the provision is recognised in the income statement.

(l) Inventories

(i) Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate portion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on either standard or weighted average basis. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale such as expenses of marketing, selling and distribution to customers.

(ii) Construction and service contract work in progress

Construction and service contract work in progress is carried at cost plus profit recognised to date based on the value of work completed, less progress billings and less provision for foreseeable losses. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under other liabilities.

Cost includes variable and fixed costs directly related to specific contracts, those costs related to contract activity in general which can be allocated to specific contracts on a reasonable basis and other costs specifically chargeable under the contract. Costs expected to be incurred under penalty clauses and rectification provisions are also included.

(iii) Stock Obsolescence

All inventory items are reviewed on a regular basis during the year and a provision raised for products which have not been sold for one year unless the review indicates that a sale is likely.

(m) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

1 Summary of significant accounting policies (continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 8).

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

Fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

1 Summary of significant accounting policies (continued)

(n) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 11. Movements in the hedging reserve in shareholders' equity are shown in note 23.

The full fair value of a hedging derivative is classified as a non current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within other income or other expense together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to the interest rate risk. The gain or loss relating to the ineffective portion is recognised in the income statement within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within "finance costs". The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within "sales". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or a non-financial liability), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

1 Summary of significant accounting policies (continued)

(o) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. Assets are depreciated or amortised from the date of acquisition, or in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Buildings	20 to 66 years
Plant and equipment	1 to 20 years
Patterns	1 to 40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(p) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 1(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4).

(ii) Patents, trademarks and brand names

Patents are carried at fair value at acquisition and amortised on a straight line basis over the life of the patent. Trademarks are carried at their fair value at acquisition less impairment losses and amortised over 5 years with amortisation calculated on a straight line basis. Brand names are not amortised if they continue to be used and add value. Discontinued brand names are amortised over a period of 10 years as they are phased out.

(iii) Customer relationships

Customer relationships acquired as part of a business acquisition are recognised separately from goodwill. The customer relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on their estimated useful lives, which currently vary from 10 to 20 years.

(iv) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 10 years.

(q) Payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

1 Summary of significant accounting policies (continued)

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(s) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(t) Provisions

A provision is recognised in the accounts when there is a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(i) Warranties

Products are warranted against faulty workmanship and in some cases these are specifically extended to periods up to seven years or hours used depending on the type of product and contract in place. Rectification claims are settled in cash or by repair of the item, at the discretion of the Group. Provision for warranty claims are made for claims received and claims expected to be received in relation to sales made prior to reporting date adjusted for specific information arising from internal quality assurance processes.

(u) Employee Benefits

(i) Wages, salaries, annual leave, sick leave, rostered days off and non-monetary benefits

Liabilities for annual leave, accumulating sick leave and rostered days off, including non monetary benefits, expected to be settled within 12 months of the reporting date are recognised in current provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Liabilities for unpaid wages and salaries up to the reporting date are recognised in current payables.

(ii) Long service leave

The provision for long service leave represents the present value of the expected future cash outflows to be made resulting from employees' services provided to reporting date.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in current provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

1 Summary of significant accounting policies (continued)

(iv) Employee share and rights plans

Share based compensation benefits are provided to employees and directors via the Performance Rights Plan ('PRP') and the Non-Executive Director Share Acquisition Plan ('NEDSAP') respectively.

The fair value of Rights granted under the PRP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the Rights. The fair value of Rights granted are measured using the Black & Scholes Pricing Model, taking into account the terms and conditions attached to the Rights. The amount recognised as an expense is adjusted to reflect the actual number of Rights that vest except where forfeiture is due to market related conditions.

The fair value of shares issued under the NEDSAP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date.

(v) Retirement benefit obligations

All employees of the Group are entitled to benefit from various superannuation or pension plans on retirement, disability or death. The Group operates two defined benefit retirement plans, one in the United States and the other in Canada. The United States plan is closed to new members and covers hourly employees hired before May 10, 1993 at one of our US subsidiaries. The Canadian plan is currently active at one of our Canadian subsidiaries for hourly employees but closed on March 1, 2010 to salaried employees. Benefits for the defined benefit plan are determined on years of credited service. The Group also operates a number of defined contribution plans which receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the funds assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on future payments which may arise from membership of the fund to the reporting date calculated annually by independent actuaries. Consideration is given to the experience of employee departures and periods of service.

Unrecognised actuarial gains / losses in excess of the 10% corridor are being recognised on a straight-line basis over the average life remaining service period of the active participant group.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is a deep market in high-quality corporate bonds, the market rates on those bonds are used.

Past service costs are recognised immediately in profit or loss, unless the changes to the pension fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

(vi) Healthcare reserves

The Group's U.S. operations primarily self-insure employee healthcare expenses. Reserves are based on historical claims experience.

(v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or rights are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or rights for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

1 Summary of significant accounting policies (continued)

(y) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

(z) Rounding of amounts

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(aa) Amended accounting standards and UIG interpretations

Certain amended accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Group's and the parent entity's assessment of the impact of these amended standards and interpretations is set out below.

AASB 10 *Consolidated Financial Statements,* AASB 11 *Joint Arrangements,* AASB 12 *Disclosure of Interests in Other Entities,* revised AASB 127 *Separate Financial Statements and* AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective for annual periods beginning on or after 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments. Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments. The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective for annual periods beginning on or after 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* *(effective for annual periods beginning on or after 1 January 2013)*

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures , to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001 . While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

1 Summary of significant accounting policies (continued)

AASB 119 - *Revised AASB 119 Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* *(effective for annual periods beginning on or after 1 January 2013)*
In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will be implemented retrospectively. The Group will adopt the new standard from 1 July 2013.

Amendments to AASB 136 *Recoverable Amount Disclosures for Non-Financial Assets* *(effective for annual periods beginning on or after 1 January 2014)*
The AASB has made small changes to some of the disclosures that are required under AASB 136 Impairment of Assets. These may result in additional disclosures if the group recognises an impairment loss or the reversal of an impairment loss during the period. They will not affect any of the amounts recognised in the financial statements. The group intends to apply the amendment from 1 July 2014.

AASB 2012-5 *Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle* (effective for annual periods beginning on or after 1 January 2013)
In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The group does not expect that any adjustments will be necessary as the result of applying the revised rules.

There are no other standards that are not yet effective and that are expected to have a material impact on the group in the current or future reporting periods on foreseeable future transactions.

(ab) Parent entity financial information

The financial information for the parent entity, Bradken Limited, disclosed in note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Bradken Limited.

(ii) Tax consolidation legislation

Bradken Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Bradken Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Bradken Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Bradken Limited for any current tax payable assumed and are compensated by Bradken Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Bradken Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(iii) Financial guarantees

The parent entity is a guarantor under the Bradken Group - Common Terms Deed Poll and unconditionally and irrevocably guarantees payments due in connection with any financing facilities owed by any Group company.

2 Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used as hedging instruments, not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which is it exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risk and ageing analysis for credit risk.

Risk management is carried out centrally by the CFO and finance function under policies approved by the Board of Directors.

(a) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

The maximum exposure to credit risk best represents the carrying value of the financial assets at balance date.

The standard terms and conditions on sale of goods includes a clause which allows Bradken to repossess goods which have not been consumed should Bradken require it necessary to recoup unpaid debts owed to them.

Bradken's global customer base is large and diverse and subject to strict credit application and assessment criteria to minimise impairment risk.

Details on the past due but not impaired trade receivables are disclosed at note 8(b).

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims at maintaining flexibility in funding by keeping committed credit lines available.

Management monitors forecasts of the Group's liquidity on the basis of expected cash flow. See note 19(e) for details of available facilities.

The tables below analyse the Group's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. There is no liquidity risk at the Parent entity level.

Group - 2013	Less than 1 year $'000	Between 1 and 3 years $'000	Between 3 and 5 years $'000	Between 5 and 8 years $'000	Over 8 years $'000
Non-derivatives					
Payables	197,029	-	-	-	-
Borrowings (excluding finance leases)	47,910	341,263	16,649	69,981	165,111
Finance leases liabilities	4,805	5,138	1,058	890	-
Derivatives					
Net settled interest rate swaps and caps	2,310	-	-	-	-

Group - 2012	Less than 1 year $'000	Between 1 and 3 years $'000	Between 3 and 5 years $'000	Between 5 and 8 years $'000	Over 8 years $'000
Non-derivatives					
Payables	203,245	-	-	-	-
Borrowings (excluding finance leases)	26,946	264,050	145,868	73,224	162,180
Finance leases liabilities	4,845	5,672	524	-	-
Derivatives					
Net settled interest rate swaps and caps	3,650	-	-	-	-

The Group enters into forward exchange contracts to hedge foreign currency denominated receivables and also to manage foreign currency denominated inventory and capital items.

Refer to note 8(f) for receivables denominated in foreign currencies.

(c) Market risk

(i) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets and the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest-rate-risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate-risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate-risk. Group policy is to fix the rates for between 30% and 70% of its borrowings.

2 Financial risk management (continued)

(c) Market risk (continued)

The Group manages its cash flow interest-rate-risk by using floating-to-fixed interest rate swaps and interest rate caps. Such instruments have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

Refer to note 19 for further details generally of the Group's borrowings.

A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table at note 2(c)(iv).

(ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. It is the policy of the Group to enter into forward foreign exchange contracts to cover all foreign currency exposure other than those effectively covered within the natural hedging pool.

Refer to note 8 and 17 for receivables and payables denominated in foreign currencies.

Unrealised gains or losses on outstanding foreign exchange contracts are taken to the Group's income statement on a monthly basis.

A sensitivity analysis of foreign exchange risk on the Group's financial assets and liabilities is provided in the table at note 2(c)(iv).

(iii) Price risk

The Group is exposed to commodity price risk through the purchase of steel and various alloys.

(iv) Summarised sensitivity analysis

The following table summarises the pre-tax sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk. These sensitivities are prior to the offsetting impact of hedging instruments.

2013		Interest rate risk				Foreign exchange risk			
	Carrying	-100 bps		+100 bps		-10%		+10%	
	amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets									
Cash and cash equivalents	92,489	(924)	(924)	924	924	5,735	5,735	(5,735)	(5,735)
Accounts receivable	155,353	-	-	-	-	11,552	11,552	(11,552)	(11,552)
Receivables under finance leases	5,531	-	-	-	-	-	-	-	-
Derivatives - FVTPL	12,897	-	-	-	-	20,078	20,078	5,556	5,556
Financial liabilities									
Derivatives - cashflow hedges	(2,310)	-	33	-	(32)	-	-	-	-
Trade payables	(115,931)	-	-	-	-	(8,290)	(8,290)	8,290	8,290
Borrowings	(524,032)	5,240	5,240	(5,240)	(5,240)	(37,222)	(37,222)	37,222	37,222
Total increase/(decrease)		4,316	4,349	(4,316)	(4,348)	(8,147)	(8,147)	33,781	33,781

2012		Interest rate risk				Foreign exchange risk			
	Carrying	-100 bps		+100 bps		-10%		+10%	
	amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets									
Cash and cash equivalents	101,892	(1,018)	(1,018)	1,018	1,018	4,042	4,042	(4,042)	(4,042)
Accounts receivable	202,922	-	-	-	-	12,342	12,342	(12,342)	(12,342)
Receivables under finance leases	5,725	-	-	-	-	-	-	-	-
Financial liabilities									
Derivatives - cashflow hedges	(3,409)	-	494	-	(494)	-	-	-	-
Derivatives - FVTPL	(241)	-	-	-	-	546	546	(974)	(974)
Trade payables	(158,762)	-	-	-	-	(9,320)	(9,320)	9,320	9,320
Borrowings	(549,971)	5,500	5,500	(5,500)	(5,500)	(32,850)	(32,850)	32,850	32,850
Total increase/(decrease)		4,482	4,976	(4,482)	(4,976)	(25,240)	(25,240)	24,812	24,812

Financial risk exposure of the parent entity is limited to the exposure of the Group.

2 Financial risk management (continued)

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurement by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the group's assets and liabilities measured and recognised at fair value at 30 June 2013 and 30 June 2012.

2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Derivatives used for hedging	-	12,897	-	12,897
Total assets	-	12,897	-	12,897
Liabilities				
Derivatives used for hedging	-	2,310	-	2,310
Total liabilities	-	2,310	-	2,310

2012	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Derivatives used for hedging	-	3,650	-	3,650
Total liabilities	-	3,650	-	3,650

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(p). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 14 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Estimated percentage completion for major contracts

The Group reviews the percentage of completion for its major contracts monthly including assessing costs to be incurred to complete the project in accordance with the accounting policy stated in note 1(e) and note 1(l). These assessments require an estimate of the remaining labour and material costs for the projects.

(iii) Equity accounting for Austin Engineering

The Group has equity accounted the latest available published results of Austin Engineering Limited for the half year ending 31 December 2012 and extrapolated these to 30 June 2013 based on market conditions and analyst estimates. Differences identified when Austin Engineering Limited publishes results for the 2013 financial period will be adjusted in Bradken Limited's interim report for the half year ending 31 December 2013.

(iv) Intangibles

The group values identifiable intangibles acquired in a business combination based on a combination of independent valuations in some cases and management's estimate of the net present value of estimated future cash flows of the assets. Identifiable intangible assets are amortised over their estimated useful lives. Given the estimates involved, management review the carrying value of these assets annually for impairment.

4 Segment information

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the Managing Director.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment. Segment assets include all assets used by a segment and consist primarily of receivables, inventories and property, plant and equipment, net of related provisions. Segment liabilities consist primarily of trade and other creditors, employee benefits and provision for service warranties.

Segment revenues, expenses and results include transfers between segments. Sales of scrap between controlled entities are made on an "arm's-length" basis and are eliminated on consolidation. All other transfers are made at variable cost and are eliminated on consolidation.

(a) Description of segments

Mining Products consists of design, supply and service of wear components for all types of earth moving in the Mining and Quarry industries. Mineral Processing consists of design supply and service of mill liner components in the Mineral Processing industries. Rail is a package provider of Freight Rollingstock products and services including freight wagons, bogies, drawgear, inventory management, spare and renewed parts and the maintenance and refurbishment of rollingstock. Engineered Products, based in the North America, is a supplier of cast parts to the Energy, Power, Cement, Industrial and Rail Transport industries specialising in large (greater than 4,500 kg) highly engineered steel castings.

Responsibility for the North American based Resource business previously included as part of the Engineered Products segment has been moved to the Mining Products segment. The Mineral Processing business previously reporting within the Mining Products business has been removed from that segment following the acquisition and consolidation of the Canadian based Norcast business in 2011 and is now reported as a separate segment. Management has concluded that the results of the previously reported Industrial segment is no longer required to be separately disclosed. The segment does not meet any quantitative thresholds required by AASB 8 and is considered by management to be of decreasing relevance as the Group's operations continue to expand. Management has concluded that the results of this operation are better included in the "all other segments" column. Comparative disclosures have also been amended to reflect these changes.

The "all other" segment also represents other smaller businesses including Cast Metal Services.

4 Segment information (continued)

(b) Segment information provided to the Managing Director

The segment information provided to the Managing Director for the reportable segments for the year ending 30 June 2013 and for the year ending 30 June 2012 are as follows:

2013	Notes	Mining Products $'000	Mineral Processing $'000	Engineered Products $'000	Rail $'000	All other segments $'000	Total $'000
Total segment revenue		417,235	289,987	389,477	227,392	198,495	1,522,586
Inter-segment revenue		(51,933)	(39,898)	(32,875)	(4,830)	(79,911)	(209,447)
Revenue from external customers		**365,302**	**250,089**	**356,602**	**222,562**	**118,584**	**1,313,139**
Gross margin		**125,573**	**94,256**	**124,394**	**37,779**	**47,583**	**429,585**
Depreciation and amortisation expense		14,413	13,177	17,574	4,734	2,496	52,394
Net interest expense		1,689	3,409	2,312	124	(16)	7,518
Impairment of inventories	Note 10	836	73	575	(2)	20	1,502
Impairment of trade receivables	Note 8	-	-	407	-	257	664
Income tax expense / (income)		12,640	11,289	2,109	310	6,599	32,947
Other non cash expenses / (revenue)		3,808	375	82	1,609	(2,888)	2,986
Total segment assets		**403,769**	**361,859**	**336,862**	**85,364**	**119,692**	**1,307,546**
Total segment assets include:							
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets		65,391	9,301	15,188	3,515	3,855	97,250
Total segment liabilities		**53,605**	**47,999**	**61,268**	**75,607**	**22,580**	**261,059**

2012	Notes	Mining Products $'000	Mineral Processing $'000	Engineered Products $'000	Rail $'000	All other segments $'000	Total $'000
Total segment revenue		377,721	288,962	418,213	347,440	215,812	1,648,148
Inter-segment revenue		(26,886)	(36,194)	(26,649)	(17,239)	(89,924)	(196,892)
Revenue from external customers		**350,835**	**252,768**	**391,564**	**330,201**	**125,888**	**1,451,256**
Gross margin		**117,371**	**89,420**	**130,892**	**45,042**	**49,073**	**431,798**
Depreciation and amortisation expense		10,721	10,993	15,293	5,440	1,930	44,377
Net interest expense		49	1,234	3,372	(647)	(19)	3,989
Impairment of inventories	Note 10	592	-	26	(206)	86	498
Impairment of trade receivables	Note 8	(5)	-	38	-	293	326
Income tax expense / (income)		15,046	10,748	5,826	2,621	7,387	41,628
Other non cash expenses / (revenue)		2,003	5,335	4,816	1,082	830	14,066
Total segment assets *		**334,958**	**333,164**	**327,312**	**172,161**	**150,565**	**1,318,160**
Total segment assets include:							
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets		74,702	110,488	30,578	6,810	2,721	225,299
Total segment liabilities *		**59,832**	**44,282**	**79,290**	**59,910**	**33,891**	**277,205**

4 Segment information (continued)

(c) Other segment information

The Group's divisions are managed on a global basis and operate in five main geographical areas, Australia, the home country of the parent entity, the UK, the US, Canada, China and Other countries. The majority of revenue classified as "Other" relates to Canada, and various European, African, Asian, and South American countries.

(i) Segment revenue

Sales between segments under the same tax jurisdiction are made at variable cost and are eliminated on consolidation. Sales between segments under different tax jurisdictions are carried out at arms length and are eliminated on consolidation.

The revenue from external parties reported to the Managing Director is measured in a manner consistent with that in the income statement. Segment revenue reconciles to total revenue from continuing operations as follows:

	2013	2012
	$'000	$'000
Total segment revenue	**1,522,586**	1,648,148
Intersegment eliminations	**(209,447)**	(196,892)
Interest revenue	**254**	369
Other revenue	**-**	1,218
Rental income	**400**	516
Royalty income	**506**	415
Sale of scrap	**925**	868
Commission income	**145**	62
Other	**2,073**	1,377
Total revenue from continuing operations (note 5)	**1,317,442**	1,456,081

Segment revenues are allocated based on the country in which the customer is located.

Australia	**605,717**	733,420
US	**326,148**	401,910
Other countries	**381,274**	315,926
Revenue from external customers	**1,313,139**	1,451,256

(ii) Gross margin

The Managing Director assesses the performance of each operating segment based on a measure of gross margin. Gross margin is considered the most relevant measure of individual segment results as manufacturing plants all make product for the various segments and transfer product at cost. This measurement basis excludes the allocation of manufacturing variances and overheads from individual manufacturing plants as any allocation would be arbitrarily based.

A reconciliation of standard gross margin to operating profit before income tax is provided as follows:

	2013	2012
	$'000	$'000
Gross margin	**429,585**	431,798
Fixed manufacturing overheads and other cost of sale adjustments	**(152,000)**	(134,558)
Other reveune	**14,570**	2,017
Other income	**4,303**	4,825
Selling and technical expenses	**(60,726)**	(57,803)
Administration expenses	**(110,089)**	(76,681)
Finance costs	**(31,501)**	(33,785)
Share of net profit of associates accounted for using the equity method	**9,847**	2,826
Profit before income tax	**103,989**	138,639

4 Segment information (continued)

(c) Other segment information (continued)

(iii) Segment assets

The amounts provided to the Managing Director with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. Reportable segments' assets are reconciled to total assets as follows:

	2013 $'000	2012 $'000
Segment assets	**1,307,546**	1,318,160
Unallocated:		
Inventories	**(1,593)**	(1,037)
Current receivables	**(29,913)**	(38,610)
Intangibles	**162,547**	137,743
Property, plant and equipment	**16,461**	16,023
Investments accounted for using the equity method	**49,261**	38,521
Current tax assets	**11,794**	7,150
Deferred tax assets	**6,059**	17,972
Cash and cash equivalents	**92,449**	101,844
Total assets as per the balance sheet	**1,614,611**	1,597,766

Segment assets are allocated based on where the assets are located.

Australia	**434,234**	539,416
US	**212,888**	255,264
Canada	**338,254**	298,681
China	**219,113**	149,065
UK	**40,504**	31,870
Other countries	**62,553**	43,864
Total segment assets	**1,307,546**	1,318,160

(iv) Segment liabilities

The amounts provided to the Managing Director with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment and the physical location of the liabilities. Reportable segments' liabilities are reconciled to total liabilities as follows:

	2013 $'000	2012 $'000
Segment liabilities	**261,059**	277,205
Unallocated:		
Payables	**12,853**	1,320
Derivative financial instruments	**2,310**	3,650
Current provisions	**2,506**	59
Non-current provisions	**4,155**	5,112
Current borrowings	**26,486**	3,642
Non-current borrowings	**493,046**	542,972
Current tax liabilities	**3,004**	6,198
Deferred tax liabilities	**43,882**	38,158
Total liabilities as per the balance sheet	**849,301**	878,316

5 Profit from ordinary activities

	2013 $'000	2012 $'000
Revenue		
From continuing operations		
Sales revenue		
Sale of goods	**1,313,139**	1,451,256
	1,313,139	1,451,256
Other revenue		
Interest	**254**	369
Dividends	**-**	1,218
Rental income	**400**	516
Royalty income	**506**	415
Sale of scrap	**925**	868
Commission received	**145**	62
Other	**2,073**	1,377
	1,317,442	1,456,081

	2013 $'000	2012 $'000
Other income		
Foreign exchange gains (net) (note (a))	**12,137**	2,017
Net gain on disposal of property, plant and equipment (note (b))	**2,433**	-
	14,570	2,017

(a) Net foreign exchange gains

	2013 $'000	2012 $'000
Net foreign exchange gains included in other income for the year	**12,137**	2,017
Net foreign exchange gains recognised in profit before income tax for the year (as either other income or expense)	**12,137**	2,017

(b) Net gain on disposal of property, plant and equipment

There was a net loss on disposal of property, plant and equipment in 2012 of $100,000.

5 Profit from ordinary activities (continued)

Expenses

	Notes	2013 $'000	2012 $'000
Profit before income tax includes the following specific expenses:			
Depreciation			
Buildings		**4,639**	3,802
Plant & equipment		**36,251**	32,723
Leasehold improvements		**339**	236
Plant & equipment under finance leases		**5,129**	5,080
Total depreciation		**46,358**	41,841
Amortisation			
Customer lists		**7,341**	6,846
Trademarks		**1,289**	1,294
Licences and other		**3,226**	1,192
Total amortisation		**11,856**	9,332
Finance costs - net			
Interest and finance charges paid/payable		**30,127**	35,732
Borrowing costs amortisation		**1,474**	2,203
		31,601	37,935
Amount capitalised (note (a))		**(100)**	(4,150)
Finance costs expensed		**31,501**	33,785
Net loss on disposal of property, plant and equipment		**-**	100
Rental expense relating to operating leases			
Minimum lease payments		**8,590**	7,404
Total rental expense relating to operating leases		**8,590**	7,404
Research and development		**6,861**	1,740
Costs associated with the Pala legal case, judgement and associated costs	27(b)	**30,412**	-
Restructuring provision		**2,558**	-
Warranty		**8,892**	7,713
Stock Obsolescence		**1,502**	498
Net bad and doubtful debts expense (revenue) including movements in doubtful debts provision		**664**	326
Employee benefits expense		**415,056**	412,722

(a) Capitalised borrowing costs
The borrowing costs capitalised represent amounts incurred upfront to renew finance facilities.

6 Income tax expense

	Notes	2013 $'000	2012 $'000
(a) Income tax expense			
Current tax		**30,860**	32,376
Deferred tax		**12,943**	4,913
Adjustment for current tax of prior periods		**(6,751)**	817
		37,052	38,106
Income tax expense is attributable to:			
Profit from continuing operations		**37,052**	38,106
Aggregate income tax expense		**37,052**	38,106
Deferred income tax (revenue) expense included in income tax expense comprises:			
Decrease (increase) in deferred tax assets (note 13)		**(2,704)**	(482)
(Decrease) increase in deferred tax liabilities (note 21)		**15,647**	5,395
		12,943	4,913
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		**103,989**	138,639
		103,989	138,639
Tax at the Australian tax rate of 30% (2012: 30%)		**31,197**	41,592
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Entertainment		**61**	68
Research and development		**(1,500)**	(493)
Share based payments		**1,012**	601
Tax offset for franked dividends		**(654)**	(518)
Legal settlements	27(b)	**8,170**	-
Sundry items		**4,642**	(2,532)
		42,928	38,718
Difference in overseas tax rates		**126**	(167)
Adjustment for tax of prior periods		**(6,116)**	1,028
Deferred tax assets restated for reduction in overseas tax rate		**114**	231
Prior year tax losses de-recognised as not probable of recovery		**-**	(1,704)
Income tax expense		**37,052**	38,106
(c) Amounts recognised directly in equity			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity			
Net deferred tax - debited (credited) directly to equity (notes 13 and 21)		**6,193**	(1,196)
		6,193	(1,196)
(d) Tax expense (income) relating to items of other comprehensive income			
Available-for-sale financial assets (note 23(a))		**-**	(9,918)
Cash flow hedges (note 23(a))		**346**	(1,015)
		346	(10,933)

6 Income tax expense (continued)

(e) Tax consolidation legislation

Bradken Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Bradken Limited.

The Australian entities have also entered into an agreement under which the wholly-owned entities fully compensate Bradken Limited for any current tax payable assumed and are compensated by Bradken Limited for any current tax receivable and deferred tax assets relating to the unused tax losses or unused tax credits that are transferred to Bradken Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of the financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

7 Cash and cash equivalents

	2013 $'000	2012 $'000
Cash at bank and in hand	**92,489**	101,892
	92,489	101,892

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	2013 $'000	2012 $'000
Balances as above	**92,489**	101,892
Bank overdrafts (note 19)	**(667)**	(173)
Balances per statement of cash flows	**91,822**	101,719

(b) Interest rate risk exposure

The Group's and parent entity's exposure to interest rate risk is discussed in note 2.

8 Receivables

	2013 $'000	2012 $'000
Current		
Trade receivables	**155,353**	202,922
Provision for impairment of receivables	**(405)**	(499)
	154,948	202,423
Other receivables	**6,298**	11,182
Prepayments	**6,564**	7,306
	167,810	220,911
Non-current		
Other receivables	**2,880**	1,873
	2,880	1,873

8 Receivables (continued)

(a) Impaired trade receivables

As at 30 June 2013 current trade receivables of the Group with a nominal value of $405,000 (2012: $499,000) were impaired. The amount of the provision was $405,000 (2012: $499,000).

Movements in the provision for impairment of receivables are as follows:

	2013 $'000	2012 $'000
Balance at 1 July	**499**	476
Balances acquired on acquisition	**-**	66
Charge for the year	**664**	326
Receivables written off during the year as uncollectable	**(739)**	(375)
Unused amounts reversed	**(49)**	-
Foreign currency exchange differences	**30**	6
Balance at 30 June	**405**	499

The creation and release of the provision for impaired receivables has been included in administration expenses in the income statement. Amounts charged to the provision are generally written off when there is no expectation of recovering additional cash.

(b) Past due but not impaired

At 30 June, the ageing analysis of trade receivables is as follows:

	2013 $'000	2012 $'000
Current	**68,838**	138,817
0-30 days	**48,431**	48,947
31-60 days	**22,064**	9,575
61-90 days	**13,929**	3,483
91 + days	**2,091**	2,100
Total	**155,353**	202,922

As at 30 June 2013 trade receivables of $405,000 (2012:$499,000) were past due and considered impaired and trade receivables of $86,110,000 (2012:$63,606,000) were past due but not impaired.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

In relation to the receivables recognised as past due but not impaired and impaired, collateral is held in the form of a retention of title over the goods until payment is received. Given the consumable nature of these goods the ability to determine an accurate value for this collateral has been unable to be performed.

(c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group and also include amounts receivable based on the revenue recognised for contracts on a percentage of completion basis.

(d) Fair values

The fair values and carrying values of non-current receivables of the Group are as follows:

	2013		2012	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Other receivables	**2,880**	2,880	**1,873**	1,873
	2,880	2,880	**1,873**	1,873

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

(e) Credit risk

There is no concentration of credit risk with respect to current and non-current receivables, as the Group has a large number of customers, nationally and internationally dispersed. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

8 Receivables (continued)

(f) Foreign exchange and interest rate risk

The carrying amounts of the Group's and parent entity current and non-current receivables are denominated in the following currencies:

	2013 $'000	2012 $'000
Australian Dollars	**42,848**	82,539
US Dollars	**79,213**	95,870
Canadian Dollars	**31,968**	23,649
Chinese Yuan	**1,628**	7,808
Other *	**15,033**	12,918
	170,690	222,784

* Other refers to a basket of currencies (Euros, Great British Pounds, Japanese Yen, New Zealand Dollars, Singapore Dollars, Malaysian Ringgit, South African Rand, Chilean Pesos)

Further information about the Group's and the parent entity's exposure to credit risk, foreign exchange risk and interest rate risk in relation to trade and other receivables is provided in note 2.

9 Other receivables

	2013 $'000	2012 $'000
Current receivables under finance leases (a)	**453**	402
Non current receivables under finance leases (a)	**5,078**	5,323

(a) Receivables under finance leases

The Group leases freight rail wagons to customers in Australia under finance lease arrangements. Lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets give rise to accounts receivable in the amount of discounted future lease payments. The receivables under finance leases are as follows:

	Not later than one year $'000	Between one and five years $'000	Later than five years $'000
2012			
Present value	402	2,180	3,143
Unearned interest income	678	2,435	1,001
Total future payments	**1,080**	**4,615**	**4,144**
2013			
Present value	453	2,453	2,625
Unearned interest income	654	2,305	479
Total future payments	**1,107**	**4,758**	**3,104**

10 Inventories

	2013 $'000	2012 $'000
Construction work in progress:		
Contract costs incurred and recognised profits less recognised losses	**86,046**	243,697
Progress billing	**(70,370)**	(181,716)
Net construction work in progress	**15,676**	61,981
Raw materials and stores	**56,843**	56,462
Work in progress	**79,518**	93,344
Finished goods	**114,889**	96,326
	266,926	308,113

(a) Inventory expense

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2013 amounted to $1,502,000 (2012: $498,000). The expense has been included in 'cost of sales' in the income statement.

11 Derivative financial instruments

	2013 $'000	2012 $'000
Current assets		
Forward foreign exchange contracts - cash flow hedges ((a)(ii))	**12,897**	-
Total current derivative financial instrument assets	**12,897**	-
Current liabilities		
Interest rate swap and cap contracts - cash flow hedges ((a)(i))	**2,310**	3,409
Forward foreign exchange contracts ((a)(ii))	**-**	241
Total current derivative financial instrument liabilities	**2,310**	3,650

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

(i) Interest rate swap and interest rate cap contracts - cash flow hedges

Bank loans of the Group had an average variable interest rate of 4.40% at 30 June 2013 (2012: 4.78%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates, and interest rate caps which provide protection over an agreed interest rate level.

Swaps and caps currently in place cover approximately 14% of bank loans (2012: 36%). The average fixed interest for the swaps and caps is 4.88% (2012: 4.82%).

At balance date, the notional principal amounts and periods of expiry of the interest rate swap and cap contracts are as follows:

	2013 $'000	2012 $'000
Interest rate swap contracts		
1 year or less	**30,000**	35,359
1 - 2 years	**-**	30,000
3 - 4 years	**40,000**	-
4 - 5 years	**-**	40,000
	70,000	105,359
Interest rate cap contract		
1 year or less	**-**	20,000
	-	20,000

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately.

At balance date for the Group these contracts were net liabilities with fair value of $2,310,000 (2012: $3,409,000 liability). In the year ended 30 June 2013 there was a gain from the change in fair value of $1,099,000 (2012: $3,382,000 loss).

(ii) Forward exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover all foreign currency exposures greater than $100,000 AUD.

At balance date these contracts were net assets of $12,897,000 (2012: $241,000 liability). The Group has not classified any of these hedging instruments to be effective hedges.

In the year ended 30 June 2013 there was a gain from the change in fair value of the liability of $13,138,000 (2012: gain of $7,069,000)

(b) Risk exposures

Further information about the Group's exposure to credit risk, foreign exchange risk and interest rate risk is provided in note 2.

12 Property, plant and equipment

	Freehold land $'000	Buildings $'000	Leasehold improve-ments $'000	Plant and equipment $'000	Leased plant and equipment $'000	Capital works in progress $'000	Total $'000
At 1 July 2011							
Cost or fair value	39,775	106,706	286	387,933	36,333	29,337	600,370
Accumulated depreciation	-	(10,061)	(59)	(156,605)	(25,891)	-	(192,616)
Net book amount	39,775	96,645	227	231,328	10,442	29,337	407,754
Year ended 30 June 2012							
Opening net book amount	39,775	96,645	227	231,328	10,442	29,337	407,754
Exchange differences	1,320	3,547	(65)	4,717	(354)	-	9,165
Additions	-	-	59	-	6,133	116,695	122,887
Acquisition of subsidiary	183	7,246	5,454	25,255	45	-	38,183
Transfer (to)/from capital work in progress	360	3,473	-	61,896	-	(65,729)	-
Disposals	(2,151)	(81)	-	(736)	-	-	(2,968)
Depreciation charge	-	(3,802)	(236)	(32,723)	(5,080)	-	(41,841)
Closing net book amount	39,487	107,028	5,439	289,737	11,186	80,303	533,180
At 30 June 2012							
Cost or fair value	39,487	130,286	5,985	495,288	42,681	80,303	794,030
Accumulated depreciation	-	(23,258)	(546)	(205,551)	(31,495)	-	(260,850)
Net book amount	39,487	107,028	5,439	289,737	11,186	80,303	533,180
Year ended 30 June 2013							
Opening net book amount	39,487	107,028	5,439	289,737	11,186	80,303	533,180
Exchange differences	2,200	7,258	475	29,694	349	-	39,976
Additions	-	-	153	(877)	5,889	100,530	105,695
Transfer (to)/from capital work in progress	2,257	59,676	-	76,127	-	(138,060)	-
Disposals	(21)	(14,519)	(1,439)	(286)	(3)	-	(16,268)
Depreciation charge	-	(4,639)	(339)	(36,251)	(5,129)	-	(46,358)
Closing net book amount	43,923	154,804	4,289	358,144	12,292	42,773	616,225
At 30 June 2013							
Cost or fair value	43,923	184,919	5,084	606,998	27,909	42,773	911,606
Accumulated depreciation	-	(30,115)	(795)	(248,854)	(15,617)	-	(295,381)
Net book amount	43,923	154,804	4,289	358,144	12,292	42,773	616,225

(a) Non current assets pledged as security

Refer to note 19 for information on non-current assets pledged as security by the group.

13 Deferred tax assets

	2013 $'000	2012 $'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Doubtful debts	**146**	135
Employee benefits	**16,175**	16,099
Depreciation	**1,318**	1,844
Other provisions	**4,040**	1,679
Unrealised foreign exchange differences	**6,563**	2,217
Other accruals	**6,519**	6,299
Tax losses	**2,136**	2,856
	36,897	31,129
Amounts recognised directly in equity		
Revaluation of financial assets at fair value	**2,795**	4,792
Cash flow hedges	**676**	1,023
	3,471	5,815
Total deferred tax assets	**40,368**	36,944
Set off of deferred tax liabilities of parent entity pursuant to set off provisions (note 21)		
Net deferred tax assets	**(34,309)**	(18,971)
	6,059	17,973
Movements:		
Opening balance at 1 July	**36,944**	32,873
Credited/(charged) to the income statement (note 6)	**2,704**	482
Credited/(charged) to other comprehensive income (note 6)	**(346)**	1,015
Credited/(charged) to equity	**(778)**	2,554
Acquisition of subsidiary (note 30)	**39**	20
Reclassification from other current assets to deferred tax assets	**1,805**	-
Closing balance at 30 June	**40,368**	36,944
Deferred tax asset to be recovered after more than 12 months	**24,017**	18,408
Deferred tax asset to be recovered within 12 months	**16,351**	18,536
	40,368	36,944

14 Intangible assets

	Goodwill	Customer lists	Patents, trademarks and brands	Licences and other	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 2011					
Cost	149,001	42,984	5,506	43,014	240,505
Accumulated amortisation and impairment	(8,759)	(12,249)	(1,312)	(39,351)	(61,671)
Net book amount	140,242	30,735	4,194	3,663	178,834
Year ended 30 June 2012					
Opening net book amount	140,242	30,735	4,194	3,663	178,834
Additions	-	-	-	9,077	9,077
Acquisition of subsidiary	116,272	55,164	5,847	-	177,283
Foreign exchange variation	3,649	2,626	291	-	6,566
Amortisation charge	-	(6,846)	(1,294)	(1,192)	(9,332)
Closing net book amount	260,163	81,679	9,038	11,548	362,428
At 30 June 2012					
Cost	268,922	100,774	11,644	52,091	433,431
Accumulated amortisation and impairment	(8,759)	(19,095)	(2,606)	(40,543)	(71,003)
Net book amount	260,163	81,679	9,038	11,548	362,428
Year ended 30 June 2013					
Opening net book amount	260,163	81,679	9,038	11,548	362,428
Additions	1,519	-	-	8,145	9,664
Acquisition of subsidiary	-	-	-	-	-
Foreign exchange variation	13,692	7,996	815	-	22,503
Amortisation charge	-	(7,341)	(1,289)	(3,226)	(11,856)
Closing net book amount	275,374	82,334	8,564	16,467	382,739
At 30 June 2013					
Cost	284,133	108,770	12,459	60,236	465,598
Accumulated amortisation and impairment	(8,759)	(26,436)	(3,895)	(43,769)	(82,859)
Net book amount	275,374	82,334	8,564	16,467	382,739

(a) Impairment tests for goodwill and other intangibles

The impairment testing has been performed on the following operating segment levels, Industrial, Mining Products, Rail, Engineered Products.

The recoverable amount of the CGU is determined based on a value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using perpetual per annum growth rates per segment of Mining 3.0%, Mineral Processing 3.0%, Engineered Products 2.0%, Rail 1.0% and Other in a range of 1.0% to 3.0%.

The carrying amounts of goodwill as disclosed in the balance sheet is $15.9m for the Industrial segment, $45.9m for the Mining Products segment, $117.1m for the Mineral Processing segment, $86.0m for the Engineered Products segment, $3.4m for the Rail segment and $7.1m for the Other segment.

(b) Key assumptions used for value in use calculations

Management determined assumptions on revenue growth, gross margin, overhead level, working capital and capital expenditure have been determined based on past performance and expectations for the future. The weighted average growth rates used are consistent with forecasts included in industry reports.

In performing the value-in-use calculations, the company has applied a post tax discount rate to discount the forecast future attributable post tax cash flows. The post tax discount rate used is an estimated WACC of 8.5% (2012: 7.4%), which would translate into a pre tax discount rate of 12.1% (2012: 10.6%).

For the US operations the post tax discount rate used is an estimated WACC of 11.1% (2012: 11.3%), which would translate into a pre tax discount rate of 16.6% (2012: 17.0%).

14 Intangible assets (continued)

(c) Impairment charge

There were no impairment charges in the period (2012: $NIL).

(d) Impact of possible changes in key assumptions

The impairment testing highlights a reasonable buffer between the value-in-use amount and the net book value of assets of the CGU's. Significant changes in the major assumptions would be required to generate an impairment charge.

15 Available for sale financial assets

	2013 $'000	2012 $'000
At beginning of year	**-**	70,054
Additions / (Disposals)	**-**	(681)
Revaluation surplus/(deficit) transfer to equity	**-**	(33,061)
Transfers to investments accounted for using the equity method	**-**	(36,312)
At end of year	**-**	-

16 Investments accounted for using the equity method

	2013 $'000	2012 $'000
Shares in associates (note 30)	**49,261**	38,521
	49,261	38,521

17 Payables

	2013 $'000	2012 $'000
Current		
Trade payables	**115,931**	158,762
Other payables	**81,098**	44,483
	197,029	203,245
Non current		
Other payables	**8,231**	7,438
	8,231	7,438

(a) Foreign currency risk

The carrying amounts of the Group's and parent entity's payables are denominated in the following currencies:

Australian Dollars	**88,708**	80,329
US Dollars	**60,079**	83,611
Chinese Yuan	**35,686**	33,721
Other *	**20,787**	13,022
	205,260	210,683

* Other refers to a basket of currencies (Euros, Great British Pounds, Japanese Yen, New Zealand Dollars, Singapore Dollars, Malaysian Ringgit, South African Rand, Chilean Pesos)

(b) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

18 Provisions

	2013 $'000	2012 $'000
Current		
Employee benefits	**47,652**	47,133
Restructuring	**2,558**	-
Warranty	**2,640**	1,026
	52,850	48,159
Non-current		
Employee benefits	**17,963**	21,497
	17,963	21,497

(a) Warranties

Provision is made for known warranty claims at balance date. Most claims are expected to be settled in the next financial year. Management estimates the provision based on expected costs to be incurred to resolve the warranty claim.

(b) Restructuring

A provision of $2,558,000 has been created in the current period to cover redundancies made in the Group's Australian operations from July 2013.

(c) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

2013	**Warranty Current $'000**	**Restructuring Current $'000**
Carrying amount at start of year	1,026	-
Additional provisions recognised	8,892	2,558
FX variations	-	-
Amounts used	(7,278)	-
Carrying amount at end of year	2,640	2,558

(d) Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	2013 $'000	2012 $'000
Long service leave obligation expected to be settled after 12 months	**4,137**	2,749

19 Borrowings

	2013 $'000	2012 $'000
Current - secured		
Lease liabilities (note 28)	**4,805**	4,845
Total secured current borrowings	**4,805**	4,845
Current - unsecured		
Bank overdrafts	**667**	173
Bank loans	**22,836**	-
Other loans	**975**	1,029
Total unsecured current borrowings	**24,478**	1,202
Total current borrowings	**29,283**	6,047
Non-current secured		
Lease liabilities (note 28)	**7,086**	6,196
Total secured non-current borrowings	**7,086**	6,196
Non-current unsecured		
Bank loans	**268,988**	341,187
US private placement	**218,675**	196,541
Total unsecured non-current borrowings	**487,663**	537,728
Total non-current borrowings	**494,749**	543,924

(a) Secured liabilities

The total secured liabilities (current and non-current) are as follows:

	2013 $'000	2012 $'000
Lease liabilities	**11,891**	11,041
Total secured liabilities	**11,891**	11,041

(b) Other loans

Other loans are repayable within twelve months. The current interest rate on these loans are 4.75% (2012: 4.91%).

(c) Risk exposures

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2013 $'000	2012 $'000
Australian Dollars	**151,808**	221,470
US Dollars	**317,229**	297,676
Great British Pounds	**33,250**	29,238
Canadian Dollars	**727**	1,286
Chinese Yuan	**20,204**	-
Malaysian Ringgits	**163**	111
Singapore Dollars	**2**	17
Euros	**649**	173
	524,032	549,971

Further information about the Group's and the parent entity's exposure to foreign exchange risk and interest rate risk and an analysis of the sensitivity of borrowings to interest rate and foreign exchange risk, is provided in note 2.

19 Borrowings (continued)

(d) Assets pledged as security

A Canadian dollar bank loan has been extinguished during the year and there are no assets pledged as security at balance date.

	2013 $'000	2012 $'000
Non-current		
First mortgage		
Freehold land and buildings	-	8,261
Floating charge		
Property plant & equipment	-	11,107
	-	11,107
Total non-current assets pledged as security	-	19,368
Total assets pledged as security	-	19,368

(e) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	2013 $'000	2012 $'000
Credit standby arrangements		
Total facilities		
Bank overdrafts	41,765	40,673
Standby letters of credit and bank guarantees	100,655	196,561
	142,420	237,234
Used at balance date		
Bank overdrafts	667	173
Standby letters of credit and bank guarantees	77,677	178,847
	78,344	179,020
Unused at balance date		
Bank overdrafts	41,098	40,500
Standby letters of credit and bank guarantees	22,978	17,714
	64,076	58,214
Bank loan facilities		
Total facilities	633,190	588,263
Used at balance date	297,446	348,460
Unused at balance date	335,744	239,803
US private placement notes		
Total facilities	218,675	196,541
Used at balance date	218,675	196,541
Unused at balance date	-	-

Working capital facilities comprise bank overdraft facilities and bank guarantee and letter of credit lines. Bank overdraft facilities comprise a AUD 30,000,000 bilateral overdraft facility, a USD 10,000,000 overdraft facility, a GBP 500,000 multi option facility and a NZD 100,000 overdraft facility.

Bank guarantees and letters of credit facilities comprise a AUD 82,000,000 multicurrency revolving bank guarantee facility, a GBP 500,000 bank guarantee facility, a NZD 50,000 guarantees facility and a CNY 100,000,000 bank guarantee line.

Bank loan facilities comprise the following

(i) a syndicated loan with three and five year revolving bullet term loan facilities with a AUD 425,000,000 multi-currency tranche, a USD 100,000,000 tranche and a GBP 20,000,000 tranche. Current interest rate is 4.21% (2012: 4.78%).

(ii) a USD 60 million revolving credit facility. Current interest rate is 4.90% (2012: 2.56%)

US Private Placement Notes comprise a 7 year USD 50,000,000 tranche, 10 year USD 100,000,000 tranche and 12 year USD 50,000,000 tranche. Current weighted average interest rate is 4.64% (2012: 4.64%).

On 1 July 2013 the 3 year component of the syndicated facility agreement was reduced by $117.5m AUD and $10.0m USD reflecting excess capacity over and above current debt requirements.

19 Borrowings (continued)

(f) Fair value

The carrying amounts and fair values of interest bearing liabilities at balance date are:

	2013		2012	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$'000	**$'000**	$'000	$'000
On balance sheet				
Non traded financial liabilities				
Bank overdrafts	**667**	**667**	173	173
Bank loans	**291,824**	**294,147**	341,187	346,016
US private placement	**218,675**	**223,025**	196,541	201,256
Other loans	**975**	**975**	1,029	1,029
Lease liabilities	**11,891**	**11,891**	11,041	11,041
	524,032	**530,705**	549,971	559,515

Fair value is inclusive of costs which would be incurred on settlement of a liability.

(i) On balance sheet

The fair value of interest bearing liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

(ii) Off balance sheet

The parent entity and certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in note 27. As explained in those notes, no material losses are anticipated in respect of any of those contingencies.

20 Retirement benefit obligations

(a) Superannuation plan

All employees of the Group are entitled to benefit from various superannuation or pension plans on retirement, disability or death. The Group operates two defined benefit retirement plans, one in the United States and the other in Canada. The United States plan at one of the Group's US subsidiaries is closed to new members and covers hourly employees hired before May 10, 1993. The Canadian plan is currently active at one of the Group's Canadian subsidiaries for hourly employees but closed on March 1, 2010 to salaried employees. Benefits for the defined benefit plans are determined on years of credited service.

The Group also operates a number of defined contribution plans which receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

The following sets out details in respect of the defined benefit plans only.

(b) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:

	2013 $'000	2012 $'000
Present value of the defined benefit obligation	**56,530**	52,110
Fair value of defined benefit plan assets	**(44,825)**	(35,111)
Net liability in the balance sheet	**(11,705)**	(16,999)

The Group has no legal obligation to settle this liability with an immediate contribution or additional one off contributions. The Company contributes such amounts as deemed necessary on an actuarial basis to provide the Plan with assets sufficient to meet benefits paid to Plan participants.

(c) Categories of the plan assets

The major categories of plan assets are as follows:

	2013 $'000	2012 $'000
Cash equivalents	**8,093**	5,772
Fixed interest	**6,174**	5,675
Equity securities	**30,558**	23,665
	44,825	35,112

(d) Reconciliations

	2013 $'000	2012 $'000
Reconciliation of the present value of the defined benefit obligation, which is partly funded:		
Balance at the beginning of the year	**52,110**	24,653
Current service cost	**1,112**	870
Interest cost	**2,112**	2,305
Plan amendments	**-**	395
Actuarial (gains) and losses	**(1,620)**	7,381
Benefits paid	**(2,305)**	(2,120)
Acquired in business combinations	**-**	17,351
FX Translation	**5,121**	1,275
	56,530	52,110
Reconciliation of the fair value of plan assets:		
Balance at the beginning of the year	**35,112**	19,616
Actual return on plan assets	**4,374**	(2,165)
Contributions by Group companies	**3,580**	3,499
Benefits paid	**(2,305)**	(2,120)
Acquired in business combinations	**-**	15,361
FX Translation	**4,064**	921
	44,825	35,112

20 Retirement benefit obligations (continued)

(e) Amounts recognised in profit or loss

The amounts recognised in profit or loss are as follow:

	2013 $'000	2012 $'000
Current service cost	**1,112**	870
Interest cost	**2,112**	2,305
Expected return on plan assets	**(2,385)**	(2,468)
Recognised net actuarial loss	**1,404**	179
Past service cost	**138**	106
Total included in employee benefits expense	**2,381**	992

(f) Amounts recognised in other comprehensive income

	2013 $'000	2012 $'000
Actuarial (loss)/gain recognised in the year	**5,633**	(11,924)
Cumulative actuarial (losses)/gains recognised in other comprehensive income	**(10,777)**	(15,711)

(g) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	USA 2013	Canada 2013	USA 2012	Canada 2012
Discount rate	**4.38%**	**4.60%**	3.75%	4.60%
Expected long-term return on plan assets	**7.00%**	**6.25%**	7.00%	6.25%
Rate of compensation increase	**N/A**	**N/A**	N/A	N/A

The Company selects the expected long-term rates of return on assets in consultation with its investment advisers and actuaries. The rates are intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits, and the plans are assumed to continue in force as long as assets are expected to be invested. In estimating the rates, appropriate consideration is given to historical performance for the major asset classes held or anticipated to be held by the plans and to current forecasts of future rates of return for those asset classes. Cash flow and expenses are taken into consideration to the extent that the expected return would be affected by them. Because assets are held in a qualified trust, anticipated returns are not reduced for taxes.

(h) Employer contributions

Employer contributions to the defined benefit plans are based on recommendations by the plan actuaries. Actuarial assessments are performed annually, and the last such assessments were made during June 2013.

Total employer contributions expected to be paid by Group companies for the year ending 30 June 2014 are $3,041,471.

(i) Historic summary

	2013 $'000	2012 $'000	2011 $'000	2010 $'000	2009 $'000
Defined benefit plan obligations	**56,530**	52,110	24,653	30,643	27,599
Plan assets	**(44,825)**	(35,111)	(19,616)	(20,295)	(20,007)
Surplus / (deficit)	**(11,705)**	(16,999)	(5,037)	(10,348)	(7,592)

21 Deferred tax liabilities

	2013 $'000	2012 $'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Prepayments	**608**	449
Design assets	**4,940**	741
Unrealised foreign exchange differences	**8,977**	310
Financial assets at fair value through profit or loss	**1,595**	1,434
Depreciation	**56,752**	48,596
Other	**5,319**	5,599
Total deferred tax liabilities	**78,191**	57,129
Set off of deferred tax liabilities of parent entity pursuant to set off provisions (note 13)	**(34,309)**	(18,971)
Net deferred tax liabilities	**43,882**	38,158
Movements:		
Opening balance at 1 July	**57,129**	42,987
Charged/(credited) to the income statement (note 6)	**15,647**	5,395
Charged/(credited) to other comprehensive income (note 6)	**-**	(9,918)
Charged/(credited) to equity (notes 22 and 23)	**5,415**	1,358
Acquisition of subsidiary (note 30)	**-**	17,307
Closing balance at 30 June	**78,191**	57,129
Deferred tax liabilities to be settled after more than 12 months	**72,575**	54,097
Deferred tax liabilities to be settled within 12 months	**5,616**	3,032
	78,191	57,129

22 Contributed equity

	Notes	Parent entity 2013 Shares	Parent entity 2012 Shares	Parent entity 2013 $'000	Parent entity 2012 $'000
(a) Share capital					
Ordinary shares	(b),(c)				
Fully paid		**169,240,662**	168,629,376	**707,693**	704,184
Total contributed equity				**707,693**	704,184

(b) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Parent entity $'000
At 1 July 2011	**Opening balance**		**161,837,406**	**654,865**
3 August 2011 to 17 February 2012	Exercise of Rights	(e)	188,673	-
16 September 2011	Dividend reinvestment plan issues	(d)	1,940,948	14,136
16 September 2011	Dividend reinvestment plan issue	(d)	2,657,773	19,853
19 March 2012	Dividend reinvestment plan issues	(d)	2,004,576	16,030
1 July 2011 to 30 June 2012	Adjustments to June 2011 institutional placement costs		-	(700)
At 30 June 2012	**Balance**		**168,629,376**	**704,184**

22 Contributed equity (continued)

(b) Movements in ordinary share capital (continued):

Date	Details	Notes	Number of shares	Parent entity $'000
4 September 2012	Dividend reinvestment plan issues	(d)	611,286	3,810
31 December 2012	Deferred tax asset adjustment relating to prior period equity raising costs		-	18
14 March 2013	Dividend reinvestment plan issues	(d)	1,064,244	7,695
6 March 2013 to 8 March 2013	Share buyback and cancellation	(g)	(1,064,244)	(8,014)
At 30 June 2013	**Balance**		**169,240,662**	**707,693**

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Dividend reinvestment plan

The company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. The plan was active during the 2013 year.

(e) Performance Rights Plan

Information relating to the Performance Rights Plan, including details of shares issued under the plan, is set out in note 35.

(f) Non-executive director share acquisition plan

Information relating to the non-exective director share acquisition plan, including details of shares issued under the plan, is set out in note 35.

(g) Share buy-back

During March 2013 the company purchased and cancelled 1,064,244 fully paid ordinary shares on-market in order to cover the issue of shares for the interim dividend for the half year ending 31 December 2012. The buyback and cancellations were approved by the Board at a meeting held on 11 February 2013. The shares were acquired at an average price of $7.51 per share, with prices ranging from $6.45 to $7.55.

The total cost of $8,014,000, including $18,165 of after tax transaction costs, was deducted from shareholder equity.

There is no current on-market buy-back.

(h) Capital risk management

The group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The group monitors it's performance against these objectives on the basis of its gearing levels expressed as a ratio of net debt to earnings before interest, tax, depreciation and amortisation (EBITDA).

During 2013, the group's strategy, which was unchanged from 2012, was to maintain the net debt level to around 2.0 times EBITDA. The comparative ratios at 30 June 2013 and 30 June 2012 were as follows:

	Notes	2013 $'000	2012 $'000
Net Debt	7, 19	**431,543**	448,079
EBITDA *		**214,016**	220,402
Net debt to EBITDA		**2.0**	2.0

* EBITDA for 2013 adjusted for Pala judgement and associated costs

Bradken Limited has complied with the financial covenants of its borrowing facilities during the 2013 and 2012 reporting periods.

23 Reserves and retained profits

	2013 $'000	2012 $'000
(a) Reserves		
Hedging reserve - cash flow hedges	**(1,575)**	(2,383)
Share based payments reserve	**11,386**	8,014
Foreign currency translation reserve	**19,898**	(18,074)
Revaluation reserve	**-**	-
Transactions with non-controlling interests	**(564)**	(564)
	29,145	(13,007)
Movements:		
Hedging reserve - cash flow hedges		
Balance 1 July	**(2,383)**	(16)
Revaluation-gross (note 11)	**1,154**	(3,382)
Deferred tax (note 13)	**(346)**	1,015
Balance 30 June	**(1,575)**	(2,383)
Share-based payments reserve		
Balance 1 July	**8,014**	5,975
Rights expense	**3,597**	2,064
Transfer to share capital (Rights exercised)	**(225)**	(25)
Balance 30 June	**11,386**	8,014
Foreign currency translation reserve		
Balance 1 July	**(18,074)**	(34,924)
Currency translation differences arising during the year	**37,972**	16,850
Balance 30 June	**19,898**	(18,074)
Available-for-sale financial assets reserve		
Balance 1 July	**-**	23,143
Revaluation-gross (note 15)	**-**	(33,061)
Deferred tax (note 21)	**-**	9,918
Balance 30 June	**-**	-
Transactions with non-controlling interests		
Balance 1 July	**(564)**	(564)
Balance 30 June	**(564)**	(564)
(b) Retained profits		
Balance 1 July	**193,895**	168,206
Net profit for the year	**66,937**	100,533
Dividends	**(70,103)**	(66,480)
Actuarial (losses) / gains on retirement benefit obligations, net of tax	**3,365**	(8,364)
Balance 30 June	**194,094**	193,895

(c) Nature and purpose of reserves

(i) Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(n). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(ii) Share-based payments reserve

The share based payments reserve is used to recognise the fair value of rights issued but not exercised.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

23 Reserves and retained profits (continued)

(iv) Available-for-sale financial assets reserve

Changes in the fair value and exchange differences arising on translation of investments, such as equities classified as available-for-sale financial assets, are recognised in other comprehensive income as described in note 1(m) and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

Amounts are reversed when the classification of the investment changes to an associate.

(v) Transactions with non-controlling interests

This reserve is used to record the differences described in note 1(b)(iii) which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

24 Dividends

	2013 **$'000**	2012 $'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2012 of 21.5 cents (2011: 21.0 cents) per fully paid share paid on 4 September 2012 (2011: 19 September 2011)		
Fully franked based on tax paid @ 30%	**36,255**	33,988
Interim dividend for the year ended 30 June 2013 of 20.0 cents (2012: 19.5 cents) per fully paid share paid 14 March 2013 (2012: 19 March 2012)		
Fully franked based on tax paid @ 30%	**33,848**	32,492
Total dividends provided for or paid	**70,103**	66,480
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2012 and 30 June 2013 were as follows:		
Paid in cash	**58,598**	16,461
Satisfied by issue of shares	**11,505**	50,019
	70,103	66,480
(b) Dividends not recognised at year end		
In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 18.0 cents per fully paid ordinary share franked to 100%, (2012: 21.5 cents franked to 100%) based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 13 September 2013 out of retained profits at 30 June 2013, but not recognised as a liability at year end, is	**30,463**	36,255

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2013 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2014.

	Consolidated		**Parent entity**	
	2013 **$'000**	2012 $'000	**2013** **$'000**	2012 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2012: 30%)	**5,917**	34,121	**5,917**	34,121

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $13,056,000 (2012: $15,538,000).

25 Key management personnel disclosures

(a) Directors

The following persons were directors of Bradken Limited during the financial year:

(i) Chairman - non-executive

Nick Greiner

(ii) Executive director

Brian Hodges, Managing Director

(iii) Non executive directors

Phil Arnall

Eileen Doyle

Vince O'Rourke (resigned 23 October 2012)

Greg Laurie

Peter Richards

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	*Position*	*Employer*
Tom Armstrong	Chief Operating Officer - Engineered Products	Bradken Inc.
Andrew Allen	General Manager - Corporate Development	Bradken Resources Pty Ltd
Stephen Cantwell	General Manager Rail	Bradken Resources Pty Ltd
Steven Perry	Chief Financial Officer	Bradken Resources Pty Ltd
Enda Sheridan	General Manager - Mining Products & Industrial Products	Bradken Resources Pty Ltd
Brad Ward	General Manager - Mineral Processing (from 1 July 2012)	Bradken Resources Pty Ltd

(c) Key management personnel compensation

	2013	2012
	$	$
Short-term employee benefits	**4,843,370**	5,343,806
Post-employment benefits	**280,763**	259,726
Other long-term benefits	**107,727**	97,048
Share-based payments	**1,193,823**	860,488
	6,425,683	6,561,068

The company has taken advantage of the relief provided by *Corporations Regulation* 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections (a) to (d) of the remuneration report on pages 12 to 18.

(d) Equity instrument disclosures relating to key management personnel

(i) Rights provided as remuneration and shares issued on exercise of rights

Details of Performance Rights provided as remuneration and shares issued on the exercise of such Rights, together with terms and conditions of the Rights, can be found in section (d) of the remuneration report on pages 16 to 18.

25 Key management personnel disclosures (continued)

(ii) Rights holdings

The number of Rights over ordinary shares in the company held during the financial year by each director of Bradken Limited and other key management personnel of the Group, including their personally related entities, are set out below.

2013 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Bradken Limited						
Brian Hodges	311,655	141,021	(36,521)	(110,381)	305,774	-
Other key management personnel of the Group						
Andrew Allen	62,441	34,205	-	(21,421)	75,225	-
Tom Armstrong	67,111	39,334	-	(28,446)	77,999	-
Stephen Cantwell	28,344	49,377	-	-	77,721	-
Steven Perry	23,136	34,175	-	(9,499)	47,812	-
Enda Sheridan	123,825	63,052	-	(49,259)	137,618	-
Brad Ward	60,593	39,915	-	(25,442)	75,066	-

2012 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Bradken Limited						
Brian Hodges	253,898	84,863	-	(27,106)	311,655	36,521
Other key management personnel of the Group						
Andrew Allen	53,499	20,742	(6,773)	(5,027)	62,441	-
Tom Armstrong	56,405	19,320	(8,614)	-	67,111	-
Bruce Arnott	76,712	-	(9,987)	(66,725)	-	-
Stephen Cantwell	-	28,344	-	-	28,344	-
Steven Perry	28,502	6,762	(9,795)	(2,333)	23,136	
Enda Sheridan	112,755	38,235	(15,592)	(11,573)	123,825	-

(iii) Share holdings

The number of shares in the company held during the financial year by each director of Bradken Limited and other key management personnel of the Group, including their personally related entities, are set out below. There were no shares granted during the year as compensation.

2013 Name	Balance at the start of the year	Received during the year from Non-Executive Director Share Acquisition Plan	Received during the year on exercise of Rights	Other changes during the year	Balance at the end of the year
Directors of Bradken Limited					
Nick Greiner	371,272	-	-	-	371,272
Brian Hodges	2,362,028	-	36,521	(81,919)	2,316,630
Phil Arnall	437,749	-	-	(50,709)	387,040
Eileen Doyle	6,850	-	-	10,800	17,650
Greg Laurie	46,651	-	-	(1,984)	44,667
Vince O'Rourke	93,522	-	-	(93,522)	-
Peter Richards	37,279	-	-	4,820	42,099
Other key management personnel of the Group					
Andrew Allen	339,743	-	-	-	339,743
Tom Armstrong	42,988	-	-	-	42,988
Steven Perry	77,088	-	-	(16,970)	60,118
Enda Sheridan	584,182	-	-	-	584,182
Brad Ward	80,139	-	-	1,781	81,920

25 Key management personnel disclosures (continued)

(iii) Share holdings (continued)

2012 Name	Balance at the start of the year	Received during the year from Non-Executive Director Share Acquisition Plan	Received during the year on exercise of Rights	Other changes during the year	Balance at the end of the year
Directors of Bradken Limited					
Nick Greiner	363,789	-	-	7,483	371,272
Brian Hodges	2,352,224	-	-	9,804	2,362,028
Phil Arnall	502,749	-	-	(65,000)	437,749
Eileen Doyle	-	-	-	6,850	6,850
Greg Laurie	59,340	-	-	(12,689)	46,651
Vince O'Rourke	79,274	-	-	14,248	93,522
Peter Richards	22,148	-	-	15,131	37,279
Other key management personnel of the Group					
Andrew Allen	374,724	-	6,773	(41,754)	339,743
Tom Armstrong	38,002	-	8,614	(3,628)	42,988
Bruce Arnott	131,333	-	9,987	(141,320)	-
Steven Perry	-	-	9,795	67,293	77,088
Enda Sheridan	629,492	-	15,592	(60,902)	584,182

26 Remuneration of auditors

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects. During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non related audit firms:

	2013	2012
(a) Assurance services	**$**	$
Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under *Corporations Act 2001*	**409,550**	444,234
Related practices of PricewaterhouseCoopers Australian firm	**389,601**	619,044
Non-PricewaterhouseCoopers audit firm (Deloittes NZ)	**22,821**	28,351
Non-PricewaterhouseCoopers audit firm (Grant Thornton)	**290,000**	249,564
Total remuneration for audit services	**1,111,972**	1,341,193
Other assurance services		
PricewaterhouseCoopers Australian firm:		
Accounting services	**26,000**	25,856
Related practices of PricewaterhouseCoopers Australian firm		
Accounting services	**68,431**	23,100
Non-PricewaterhouseCoopers audit firm (Ernst & Young China)		
Transfer pricing services	**21,599**	-
Non-PricewaterhouseCoopers audit firm (Fubang China)		
Capital verification services	**-**	2,404
Total remuneration for other assurance services	**116,030**	51,360
Total remuneration for assurance services	**1,228,002**	1,392,553
(b) Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance including review of company income tax returns	**344,860**	454,225
Related practices of PricewaterhouseCoopers Australian firm	**74,694**	136,149
Non-PricewaterhouseCoopers audit firm (Deloittes NZ)	**13,487**	11,307
Non-PricewaterhouseCoopers audit firm (KPMG US)	**397,254**	430,417
Non-PricewaterhouseCoopers audit firm (Ernst & Young Malaysia)	**3,461**	-
Non-PricewaterhouseCoopers audit firm (Tianrui China)	**-**	685
Non-PricewaterhouseCoopers audit firm (PT The Practice Indonesia)	**-**	860
Non-PricewaterhouseCoopers audit firm (WK Wilton South Africa)	**-**	3,771
Total remuneration for taxation services	**833,756**	1,037,414

27 Contingencies

(a) Contingent Liabilities

The parent entity and Group had contingent liabilities at 30 June 2013 and 2012 in respect of:

Guarantees and letters of credit

	2013 $'000	2012 $'000
Bank guarantees for contract performance	**76,915**	177,634
Letters of credit	**762**	1,213
Total estimated contingent liabilities	**77,677**	178,847

Information about guarantees given by entities within the Group, including the parent entity are described in note 31. No deficiencies of assets exist in any of these companies.

Claims

The Bradken Group has been involved from time to time in various claims and lawsuits incidental to the ordinary course of business, including damages and commercial disputes relating to its products and services. The Group has disclaimed liability and will defend any action flowing from specific claims. It is not practical to estimate the potential effect of these claims but legal advice obtained indicates that any liability that may arise in the unlikely event these claims are successful will not be significant. Also refer to Note 27 (b) below.

No material losses are anticipated in respect of any of the above contingent liabilities.

Austin Engineering

There are no contingent liabilities that are known to Bradken that relate to Austin Engineering.

(b) Pala litigation

Bradken has appealed the adverse decision with regards to the Norcast / Pala case that was handed down by the Federal Court in April 2013. As a result of this decision an amount of $24,594,000 being the judgment sum, was placed in escrow with the Federal Court pending the outcome of the appeal. Bradken does not control the escrow account and in the event that Bradken is successful on appeal, the escrow sum, together with an estimated amount covering Bradken's legal and other associated costs, which have both been taken as an expense in the year ended 30 June 2013, would be expected to be shown as income in the financial statements for the year ended 30 June 2014.

28 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2013 $'000	2012 $'000
Land & buildings		
Payable:		
Within one year	**66**	15,430
	66	15,430
Property, plant and equipment		
Payable:		
Within one year	**26,532**	25,947
Later than one year but not later than five years	**3,266**	1,043
	29,798	26,990

(b) Lease commitments

	2013 $'000	2012 $'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	**11,276**	7,826
Later than one year but not later than five years	**29,556**	14,853
Later than five years	**18,303**	2,338
	59,135	25,017
Representing:		
Non cancellable operating leases	**57,797**	23,687
Future finance charges on finance leases	**1,338**	1,330
	59,135	25,017

28 Commitments (continued)

(i) Operating leases

Operating leases relate to buildings and plant and equipment with lease terms generally between 1 to 5 years with a small amount being payable over greater than 5 years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

	2013 $'000	2012 $'000
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows:		
Within one year	**10,599**	7,074
Later than one year but not later than five years	**28,928**	14,275
Later than five years	**18,270**	2,338
	57,797	23,687

(ii) Finance leases

The Group leases various items of plant and equipment with a carrying amount of $12,292,000 (2012: $11,186,000) under finance leases expiring within three to five years. Under the terms of the leases, the Group has the option to acquire some of the leased assets on expiry of the leases.

	2013 $'000	2012 $'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**5,489**	5,620
Later than one year but not later than five years	**6,817**	6,751
Later than five years	**923**	-
Minimum lease payments	**13,229**	12,371
Future finance charges	**(1,338)**	(1,330)
Total lease liabilities	**11,891**	11,041
Representing lease liabilities:		
Current (note 19)	**4,805**	4,845
Non current (note 19)	**7,086**	6,196
	11,891	11,041

The weighted average interest rate implicit in the leases is 8.48**%** (2012: 8.40%).

29 Related party transactions

(a) Parent entities

The ultimate parent entity within the Group is Bradken Limited.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 25.

(c) Terms and conditions

Transactions relating to dividends were on the same conditions that applied to other shareholders.

The terms and conditions of the tax funding agreement are set out in note 6(e).

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. Outstanding balances are unsecured with no fixed term for repayment.

30 Investments in associates

		2013 $'000	2012 $'000
(a) Movements in carrying amounts			
Carrying amount at the beginning of the financial year		**38,521**	-
Cost of investment previously carried as an available for sale financial asset	Note 15	**-**	36,312
Increase in investment by way of share purchases in current period		**5,877**	671
Share of profits after income tax		**7,041**	2,045
Dividends received/receivable		**(2,178)**	(507)
Carrying amount at the end of the financial year		**49,261**	38,521

(b) Summarised financial information of associates

The group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

	Company's share of:			
	Assets $'000	Liabilities $'000	Revenues $'000	Profit $'000
2013				
Austin Engineering Ltd * (ownership interest 21%)	60,309	31,194	33,704	7,041
	60,309	31,194	33,704	7,041
2012				
Austin Engineering Ltd * (ownership interest 20%)	46,499	24,599	21,943	2,045
	46,499	24,599	21,943	2,045

* Listed entity incorporated in Australia

(c) Fair value of listed investments in associates

	2013 $'000	2012 $'000
Austin Engineering Ltd	**49,481**	62,306
	49,481	62,306

31 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit, and lodgement of financial reports, and directors' report. It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee.

The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act 2001, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The companies subject to the Deed are:

- Bradken Limited
- Bradken SPV Pty Limited
- Bradken Resources Pty Limited
- Bradken Leasing Pty Limited
- Bradken Holdings Pty Limited
- Bradken Operations Pty Limited
- Bradken Finance Pty Limited
- Cast Metal Services Pty Limited

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Bradken Limited, they also represent the 'Extended Closed Group'.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2013 of the Closed Group outlined above.

	2013 $'000	2012 $'000
Income statement		
Revenue from continuing operations	**614,922**	640,899
Cost of sales	**(467,344)**	(472,797)
Gross profit	**147,578**	168,102
Other income	**16,983**	4,407
Selling and technical expenses	**(41,647)**	(40,858)
Administration expenses	**(76,959)**	(39,579)
Finance costs	**(18,503)**	(26,861)
Share of net profit of associates accounted for using the equity method	**9,847**	2,826
Profit before income tax	**37,299**	68,037
Income tax (expense) / benefit	**(17,494)**	(18,711)
Profit for the period	**19,805**	49,326
Statement of comprehensive income		
Profit for the period	**19,805**	49,326
Items that may be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	**-**	(33,061)
Changes in the fair value of cash flow hedges	**1,154**	(3,382)
Exchange differences on translation of foreign operations	**253**	34
Income tax relating to these items	**(346)**	10,933
Other comprehensive income for the period, net of tax	**1,061**	(25,476)
Total comprehensive income for the period	**20,866**	23,850
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**152,078**	128,569
Profit for the period	**19,805**	49,326
Dividends provided for or paid	**(70,103)**	(66,480)
Dividends received from companies not in Closed Group	**6,934**	40,663
Retained earnings at the end of the financial year	**108,714**	152,078

31 Deed of cross guarantee (continued)

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2013 for the Closed Group outlined above.

	2013	2012
	$'000	$'000
Current assets		
Cash and cash equivalents	**37,150**	63,904
Receivables	**380,624**	459,831
Other receivables and other assets	**453**	402
Inventories	**92,064**	150,055
Current tax assets	**10,550**	6,945
Derivative financial instruments	**12,897**	-
Total current assets	**533,738**	681,137
Non-current assets		
Receivables	**-**	68
Other financial assets	**369,497**	369,204
Investments accounted for using the equity method	**49,261**	38,521
Property, plant and equipment	**236,770**	234,705
Intangible assets	**64,744**	58,306
Deferred tax assets	**-**	12,189
Total non-current assets	**720,272**	712,993
Total assets	**1,254,010**	1,394,130
Current liabilities		
Payables	**50,452**	108,507
Borrowings	**3,226**	3,584
Current tax liabilities	**-**	21
Provisions	**40,924**	35,507
Derivative financial instruments	**2,310**	3,650
Total Current Liabilities	**96,912**	151,269
Non-current liabilities		
Borrowings	**490,816**	542,108
Deferred tax liabilities	**250**	-
Provisions	**5,957**	5,259
Total non-current liabilities	**497,023**	547,367
Total liabilities	**593,935**	698,636
Net assets	**660,075**	695,494
Equity		
Contributed equity	**542,082**	538,569
Reserves	**9,279**	4,847
Retained profits	**108,714**	152,078
Total equity	**660,075**	695,494

32 Reconciliation of profit after income tax to net cash inflow from operating activities

	2013 $'000	2012 $'000
Profit for the year	**66,937**	100,533
Share of profits of associates	**(9,847)**	(2,045)
Depreciation and amortisation of licences and designs	**58,214**	51,173
Amortisation of finance costs	**1,474**	2,203
Non-cash employee benefits expense - share-based payments	**3,597**	2,064
Net (gain) loss on sale of non-current assets	**(2,433)**	100
Net exchange differences	**(11,121)**	(4,177)
(Increase) / decrease in trade debtors and bills of exchange	**67,347**	34,412
(Increase) / decrease in inventories	**59,913**	(118,689)
(Increase) / decrease in deferred tax assets	**9,105**	(3,013)
Increase / (decrease) in trade creditors	**(20,695)**	56,314
(Increase) / decrease in other financial liabilities at fair value through profit or loss	**(1,340)**	(3,687)
Increase / (decrease) in provision for income taxes payable	**(7,838)**	(18,701)
Increase / (decrease) in provision for deferred income tax	**5,724**	8,780
Increase / (decrease) in other provisions	**(1,402)**	15,974
Net cash inflow from operating activities	**217,635**	121,241

33 Non cash investing and financing activities

	2013 $'000	2012 $'000
Acquisition of plant and equipment by means of finance leases	**5,889**	6,133
	5,889	6,133

Dividends satisfied by the issue of shares under the dividend reinvestment plan are shown in note 24 and rights and shares issued to employees under the Bradken Limited Performance Rights Plan and the Bradken Limited Employee Share Plan for no cash consideration are shown in note 35.

34 Earnings per share

	2013 **Cents**	2012 Cents
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	**39.6**	60.5
Profit attributable to the ordinary equity holders of the company	**39.6**	60.5
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	**39.1**	59.8
Profit attributable to the ordinary equity holders of the company	**39.1**	59.8

(c) Reconciliations of earnings used in calculating earnings per share

	2013 **$'000**	2012 $'000
Basic earnings per share		
Profit from continuing operations	**66,937**	100,533
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**66,937**	100,533
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**66,937**	100,533
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**66,937**	100,533
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**66,937**	100,533

(d) Weighted average number of shares used as the denominator

	2013 **Number**	2012 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**169,131,803**	166,176,563
Adjustments for calculation of diluted earnings per share:		
Rights	**2,039,469**	1,814,155
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**171,171,272**	167,990,718

(e) Information concerning the classification of securities

(i) Rights

Rights granted to employees under the Bradken Performance Rights Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The Rights have not been included in the determination of basic earnings per share. Details relating to the Rights are set out in note 35.

35 Share based payments

(a) Non-Executive Director Share Acquisition Plan

The Company has a Non-Executive Director Share Acquisition Plan (NED Plan). All current and future Non-Executive Directors are encouraged to have a percentage of their annual Directors' fees provided in shares under the NED Plan. Shares will be allocated to the Non-Executive Directors under the NED Plan and must be held for a specified period.

Non-executive directors may elect to have a percentage of their annual fixed directors' fees provided in shares under the Non-Executive Director Share Acquisition Plan (NED plan). Participation in the plan is voluntary.

Non-Executive Directors will not be able to sell or otherwise dispose of the shares until the earliest of 10 years after acquisition or the Non-Executive Director ceasing to be a director of the Company (except in very limited circumstances). During this period the shares will be subject to a holding lock.

At 30 June 2013 there are no Directors participating in the NED plan.

(b) Performance Rights Plan

The Performance Rights Plan (PRP) is the Company's long-term incentive (LTI) scheme for selected key executives. The Managing Director recommends the list of executives who are entitled to participate in this scheme and seeks approval of the list from the Human Resources Committee which is then ratified by the Board. Under the PRP, eligible executives may be granted Performance Rights (each being a right to acquire a share, subject to the satisfaction of exercise conditions) on terms and conditions determined by the Board and as documented in the PRP Plan rules and Trust Deed. If the exercise conditions are satisfied, the Performance Rights may be exercised and the shares issued and delivered to the executive. The Board may impose restrictions on the disposal of the shares and implement procedures to enforce the restrictions.

The rules of the PRP provide that the Board may determine a price that is payable to exercise a Performance Right, or that no amount is payable by the executive upon exercise of the Right.

Shares will immediately be allocated on exercise of a Performance Right. Performance Rights may only be exercised following satisfaction of performance conditions, unless the Board determines an event (such as a takeover bid) has occurred.

All grants of Performance Rights issued so far have been at no cost to participating executives. In relation to future grants, the Board may impose performance conditions that reflect the Company's business plans, targets, budgets and its performance relative to peer groups of companies.

If any additional persons become entitled to participate in the PRP and their participation requires approval under Chapter 10 of the Listing Rules, they will not participate in the PRP until shareholder approval is received pursuant to Listing Rule 10.14. Mr Brian Hodges, being the only Executive Director of the Company, is the only Director entitled to participate in the PRP. If any other Director is to participate in the PRP, the Company would seek shareholder approval as required by the Listing Rules.

The performance conditions are based on the relative total shareholder return ("TSR") of the Company measured against other companies in the ASX Small Cap Industrials index during the performance period. TSR measures the total return on investment of a share taking into account capital appreciation, capital return and dividend income.

35 Share based payments (continued)

(b) Performance Rights Plan (continued)

In assessing whether the performance hurdles have been met, the Human Resources Committee receives independent data from an independent investment bank which provides both Bradken's growth from previous financial years and that of the ASX Small Industrials Index. The Company's performance against the hurdle is then determined with each company in the ASX Small Industrials Index and Bradken being ranked in order of growth in results from previous financial years. The Company's percentile ranking is determined by aggregating the weighting within the ASX Small Industrials Index (based on market capitalisation) of each company ranked below Bradken. The method of assessment was chosen as it provides the Committee with an objective means of measuring the Company's performance against its peer group.

Dividends, changes in share price, and return of capital are included in the TSR calculation which is one of the performance criteria assessed for the LTI. The specific TSR performance conditions in relation to the grants are:

Target	Percentage of Rights available in given year to vest
The Company's TSR does not meet performance of the median company in ASX Small Cap	0
The Company's TSR equals or exceeds performance of the median company in ASX Small Cap	50
The Company's TSR ranked in third quartile of companies in ASX Small Cap	Pro rata between 50 and 100
The Company's TSR ranked in fourth quartile of companies in ASX Small Cap	100

New entrants to the scheme are provided with a transition to the 3 year plan.

Summary of Rights issues in the plan:

Grant date	Number of Rights	Fair value per Right	Financial periods in which Rights may vest
5 November 2010	34,537	$5.13	30 June 2012 / 2013
5 November 2010	550,078	$6.12	30 June 2014
7 October 2011	24,304	$4.76	30 June 2013 / 2015
7 October 2011	24,311	$4.76	30 June 2014 / 2015
7 October 2011	17,877	$4.01	30 June 2013 / 2014
7 October 2011	577,235	$4.76	30 June 2015
23 October 2012	16,493	$2.84	30 June 2014 / 2016
23 October 2012	32,987	$3.39	30 June 2015 / 2016
23 October 2012	44,876	$2.84	30 June 2014 / 2015
23 October 2012	1,089,921	$3.39	30 June 2016

There were no other Rights eligible for issuance under the scheme at 30 June 2013.

35 Share based payments (continued)

The movements in Rights issues in the plan are as follows:

Grant Date	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
2013						
18 November 2005	10,344	-	-	-	10,344	10,344
30 October 2006	11,789	-	-	(4,449)	7,340	7,340
30 October 2006	14,993	-	-	-	14,993	14,993
31 October 2007	4,944	-	-	(1,591)	3,353	3,353
17 October 2008	116	-	-	-	116	116
17 October 2008	49,211	-	(36,521)	-	12,690	12,690
29 October 2009	13,071	-	-	(13,071)	-	-
29 October 2009	649,045	-	-	(649,045)	-	-
5 November 2010	34,434	-	-	(10,446)	23,988	-
5 November 2010	543,929	-	-	-	543,929	-
7 October 2011	619,410	-	-	-	619,410	-
7 October 2011	17,877	-	-	-	17,877	-
23 October 2012	-	61,369	-	-	61,369	-
23 October 2012	-	1,122,908	-	-	1,122,908	-
Total	1,969,163	1,184,277	(36,521)	(678,602)	2,438,317	48,836
Weighted average price	4.98	3.36	4.82	4.40	4.36	3.54

Vesting for the performance period to 30 June 2013 will occur following the test date on 13 August 2013.

Grant Date	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
2012						
18 November 2005	10,344	-	-	-	10,344	10,344
30 October 2006	13,008	-	-	(1,219)	11,789	13,008
30 October 2006	14,993	-	-	-	14,993	14,993
31 October 2007	5,715	-	-	(771)	4,944	5,715
31 October 2007	2,481	-	(2,481)	-	-	-
31 October 2007	7,443	-	(7,443)	-	-	-
17 October 2008	6,492	-	(2,580)	(3,912)	-	-
17 October 2008	3,910	-	(1,032)	(2,762)	116	116
17 October 2008	321,001	-	(135,025)	(136,765)	49,211	49,211
29 October 2009	34,697	-	(20,507)	(1,119)	13,071	-
29 October 2009	660,817	-	-	(11,772)	649,045	-
5 November 2010	61,369	-	(26,935)	-	34,434	-
5 November 2010	550,078	-	-	(6,149)	543,929	-
7 October 2011	-	625,850	-	(6,440)	619,410	-
7 October 2011	-	17,877	-	-	17,877	-
Total	1,692,348	643,727	(196,003)	(170,909)	1,969,163	93,387
Weighted average price	5.04	4.74	4.88	4.76	4.98	4.02

The expiry dates of all grants shown in the tables above are 10 years from the test date. The weighted average share price at the date of exercise of Rights exercised regularly during the year ended 30 June 2013 was $6.17 (2012: $6.98). The weighted average remaining contractual life of share Rights outstanding at the end of the period was 1.63 years (2012: 1.52 years).

35 Share based payments (continued)

Fair value of Rights granted

The assessed fair value at grant date of Rights granted during the year ended 30 June 2013 was between $2.84 and $3.39 per right (2012: between $4.01 and $4.76). The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the Right, the vesting and performance criteria, the impact of dilution, the non tradeable nature of the Right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the Right.

The following factors and assumptions have been used in determining the fair value of Rights for the issues granted:

Grant Date	Expiry Date	Fair value per Right	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
18/11/2005	Ten years from Test Date	2.35	-	4.15	90%	5.35%	0.00%
30/10/2006	Ten years from Test Date	2.80	-	6.00	90%	5.73%	0.00%
30/10/2006	Ten years from Test Date	3.44	-	6.00	90%	5.73%	0.00%
31/10/2007	Ten years from Test Date	4.44	-	14.68	90%	6.18%	0.00%
31/10/2007	Ten years from Test Date	6.87	-	14.68	90%	6.18%	0.00%
31/10/2007	Ten years from Test Date	8.45	-	14.68	90%	6.18%	0.00%
17/10/2008	Ten years from Test Date	2.84	-	6.30	139%	5.19%	0.00%
17/10/2008	Ten years from Test Date	4.11	-	6.30	139%	5.19%	0.00%
17/10/2008	Ten years from Test Date	4.82	-	6.30	139%	5.19%	0.00%
29/10/2009	Final test date	2.50	-	6.05	129%	5.52%	0.00%
29/10/2009	Final test date	3.71	-	6.05	129%	5.52%	0.00%
29/10/2009	Final test date	4.41	-	6.05	129%	5.52%	0.00%
5/11/2010	Final test date	5.13	-	8.60	125%	5.25%	0.00%
5/11/2010	Final test date	6.12	-	8.60	125%	5.25%	0.00%
7/10/2011	Final test date	4.76	-	6.80	121%	4.24%	0.00%
7/10/2011	Final test date	4.01	-	6.80	121%	4.24%	0.00%
23/10/2012	Final test date	2.84	-	4.96	119%	3.08%	0.00%
23/10/2012	Final test date	3.39	-	4.96	119%	3.08%	0.00%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(c) Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2013 $'000	2012 $'000
Rights issued under Performance Rights Plan	**3,597**	2,064
	3,597	2,064

36 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2013 $'000	2012 $'000
Balance sheet		
Total assets	**773,963**	787,185
Shareholders' equity		
Issued capital	**707,693**	704,184
Share-based payments reserve	**11,386**	8,014
Retained earnings	**54,884**	74,987
	773,963	787,185
Profit or loss for the year	**50,000**	90,000
Total comprehensive income	**50,000**	90,000

(b) Guarantees entered into by the parent entity

The parent entity is a guarantor under the Bradken Group - Common Terms Deed Poll and unconditionally and irrevocably guarantees payments due in connection with any financing facilities owed by any Group company.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2013 or 30 June 2012.

(d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any contractual commitments for the acquisition of property, plant or equipment at 30 June 2013 or 30 June 2012.

37 Events occurring after balance sheet date

No material events have occurred that affect the operations of the Group from the end of the financial period ended 30 June 2013 to the date of issue of this report.

In the directors' opinion:

(a) the financial statements and notes set out on pages 28 to 89 are in accordance with the Corporations Act 2001, including

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 31 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 31.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors:

Nick Greiner
Chairman

Brian Hodges
Managing Director

Sydney
12 August 2013

Independent auditor's report to the members of Bradken Limited

Report on the financial report

We have audited the accompanying financial report of Bradken Limited (the company), which comprises the balance sheet as at 30 June 2013, the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Bradken Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
PricewaterhouseCoopers Centre, 26 Honeysuckle Drive, PO Box 798, NEWCASTLE NSW 2300
T: +61 2 4925 1100, F: +61 2 4925 1199, www.pwc.com.au

Auditor's opinion

In our opinion:

(a) the financial report of Bradken Limited is in accordance with the *Corporations Act 2001,* including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 16 to 24 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Bradken Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Campion

John Campion
Partner

Newcastle
12 August 2013

11 February 2014

Manager, Company Announcements
Australian Stock Exchange Limited
Level 4
20 Bridge Street
Sydney NSW 2000

Dear Sir

Please find attached the Company's announcement of it's interim results for the 2013/14 year, for immediate release to the market.

Included in this announcement is Appendix 4D and Half Yearly Report for the period to 31 December 2013.

Yours faithfully

Steven Perry
Company Secretary
Encl:

BRADKEN LIMITED

Appendix 4D

Half Year Report Period Ended 31 December 2013

Results for Announcement to the Market

		Percentage Change		$'000
Revenues from ordinary activities	Down	17.1%	to	567,621
Profit (loss) from ordinary activities after tax attributable to members	Down	18.5%	to	38,087
Net Profit (loss) for the period attributable to members	Down	18.5%	to	38,087

Dividends

	Amount per Security	Percentage Franked
Current period:		
Interim Dividend	15.0 cents	0%
Ex-Dividend Date for determining dividend entitlement:	17th February 2014	
Record Date for dividend entitlement:	21st February 2014	
Date the dividend is payable:	21st March 2014	
Prior corresponding period:		
Interim Dividend	20.0 cents	100%

Net Tangible Assets per Security	
As at 31st December 2013	$2.37
As at 31st December 2012	$2.17

Bradken Limited

Interim Report 31 December 2013

Contents Page

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Bradken Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Corporate directory

Directors	Nicholas Greiner, AC, B.Ec., MBA *Independent Non-Executive Chairman*	
	Brian Hodges, B.Chem.Eng. (Hons) *Managing Director and Chief Executive Officer*	
	Phil Arnall, B.Com. *Independent Non Executive Director*	
	Eileen Doyle, PhD *Independent Non Executive Director*	
	Greg Laurie, B.Com. *Independent Non Executive Director*	
	Peter Richards, B.Com. *Independent Non Executive Director*	
	David Smith, B.Sc., PhD *Independent Non Executive Director*	Appointed 1 February 2014
Company Secretary and CFO	Steven Perry, B.Com. MBA, CPA	
Joint Company Secretary	David Chesterfield, MBA	
Principal registered office in Australia	20 McIntosh Drive Mayfield West NSW 2304	Telephone: +61 2 4926 8200
Share registry	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000	Telephone: +61 2 8280 7519
Auditor	Ernst & Young 680 George Street Sydney NSW 2000	
Stock exchange listings	Bradken Limited shares are listed on the Australian Stock Exchange. The home exchange is Sydney.	
Web site address	www.bradken.com	

Directors' Report

Your directors present their report on the consolidated entity consisting of Bradken Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2013.

Directors

The following persons were directors of Bradken Limited during the whole of the half-year and up to the date of this report:

Name

Nick Greiner
Non Executive Chairman

Brian Hodges
Managing Director

Phil Arnall
Non Executive Director

Eileen Doyle
Non Executive Director

Greg Laurie
Non Executive Director

Peter Richards
Non Executive Director

David Smith
Non Executive Director (appointed 1 February 2014)

Commentary on results and review of operations

Financial Overview

	HY14	HY13	Change
NPAT	$38.1m	$46.7m	Down 18%
EBITDA	$86.2m	$105.1m	Down 18%
EBITDA margin	15.3%	15.5%	
Sales revenue	$563.6m	$680.5m	Down 17%
Operating cash flow	$67.0m	$70.8m	
Earnings per share	22.5 cents	27.6 cents	Down 5.1 cents
Dividends per share	15.0 cents	20.0 cents	Down 25%
LTIFR	4.8	4.3	

Net profit after tax attributable to members for the half-year was $38.1m (2013 $46.7m).

Additional information on the review of the operations of the Bradken Group during the half-year and the results of those operations is attached in the ASX Release.

State of affairs

During the period, the company announced that it has made a scrip based non-binding and indicative proposal to acquire all of the ordinary shares in Austin Engineering Ltd. (ANG) that it does not currently own at a fixed exchange ratio of 0.75 Bradken shares for one Austin share. Bradken currently owns 21.5% of the outstanding shares in ANG. Discussions remain ongoing.

Segment revenues and results

A summary of consolidated revenues and results for the half-year by significant industry segments is set out on pages 10 and 11.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3 and forms part of this report.

Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the director's report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order unless otherwise noted.

This report is made in accordance with a resolution of directors.

Brian Hodges
Managing Director

Nick Greiner
Chairman

Sydney
10 February 2014

Building a better working world

Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of Bradken Limited

In relation to our audit of the financial report of Bradken Limited for the for the half year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Trent van Veen
Partner
Sydney
10 February 2014

	Notes	Half-year 31 December 2013 $'000	31 December 2012 $'000
Revenue from continuing operations		**563,571**	680,516
Cost of sales		**(450,373)**	(536,996)
Gross profit		**113,198**	143,520
Other income		**4,050**	4,311
Selling and technical expenses		**(29,307)**	(31,079)
Administration expenses		**(32,544)**	(39,272)
Finance costs		**(17,287)**	(15,768)
Share of net profit of associates accounted for using the equity method		**952**	4,053
Profit before income tax	5	**39,062**	65,765
Income tax expense		**(975)**	(19,050)
Profit for the half-year		**38,087**	46,715
Profit attributable to:			
Owners of Bradken Limited		**38,087**	46,715
		38,087	46,715
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share:		**22.5**	27.6
Diluted earnings per share:		**22.2**	27.3

The above consolidated income statement should be read in conjunction with the accompanying notes.

	Notes	Half-year 31 December 2013 $'000	31 December 2012 $'000
Profit for the half-year		**38,087**	46,715
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges		**407**	289
Exchange differences on translation of foreign operations		**10,999**	(4,292)
Income tax relating to these items		**(122)**	(87)
Items that will not be reclassified to profit or loss			
Actuarial (losses) / gains on retirement benefit obligations		**3,165**	(342)
Other comprehensive income for the half-year net of tax		**14,449**	(4,432)
Total comprehensive income for the half-year		**52,536**	42,283
Total comprehensive income for the half-year is attributable to:			
Owners of Bradken Limited		**52,536**	42,283
		52,536	42,283

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Note	31 December 2013 $'000	30 June 2013 $'000
Current assets			
Cash and cash equivalents		**124,629**	92,489
Receivables		**140,376**	167,810
Other receivables and other assets		**453**	453
Inventories		**239,771**	266,926
Current tax assets		**10,877**	11,794
Derivative financial instruments		**6,350**	17,519
Total current assets		**522,456**	556,991
Non-current assets			
Receivables		**3,149**	2,880
Other receivables and other assets		**5,078**	5,078
Property, plant and equipment		**637,597**	616,225
Deferred tax assets		**9,996**	6,059
Intangible assets		**383,496**	382,739
Investments accounted for using the equity method	2	**55,005**	49,261
Total non-current assets		**1,094,321**	1,062,242
Total assets		**1,616,777**	1,619,233
Current liabilities			
Payables		**132,145**	197,029
Borrowings		**44,583**	29,283
Current tax liabilities		**5,672**	3,004
Provisions		**46,668**	52,850
Derivative financial instruments		**4,744**	6,932
Total Current Liabilities		**233,812**	289,098
Non-current liabilities			
Payables		**8,459**	8,231
Borrowings		**526,274**	494,749
Deferred tax liabilities		**46,497**	43,882
Provisions		**11,691**	17,963
Total non-current liabilities		**592,921**	564,825
Total liabilities		**826,733**	853,923
Net assets		**790,044**	765,310
Equity			
Contributed equity		**542,071**	542,071
Reserves		**43,090**	29,145
Retained profits		**204,883**	194,094
Capital and reserves attributable to the owners of Bradken Limited		**790,044**	765,310
Total equity		**790,044**	765,310

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

		Attributable to owners of Bradken Limited			
		Contributed Equity	Reserves	Retained earnings	Total
	Notes	$'000	$'000	$'000	$'000
Balance at 1 July 2012		**538,562**	**(13,007)**	**193,895**	**719,450**
Profit for the half-year		-	-	46,715	46,715
Other comprehensive income		-	(4,090)	(342)	(4,432)
Total comprehensive income for the half-year		**-**	**(4,090)**	**46,373**	**42,283**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	4	3,809	-	(36,255)	(32,446)
Deferred tax adjustment for previously booked placement costs		18	-	-	18
Employee share options - value of employee services		-	1,550	-	1,550
		3,827	**1,550**	**(36,255)**	**(30,878)**
Balance at 31 December 2012		**542,389**	**(15,547)**	**204,013**	**730,855**
Balance at 1 July 2013		**542,071**	**29,145**	**194,094**	**765,310**
Profit for the half-year		-	-	38,087	38,087
Other comprehensive income		-	11,284	3,165	14,449
Total comprehensive income for the half-year		**-**	**11,284**	**41,252**	**52,536**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	4	-	-	(30,463)	(30,463)
Employee share options - value of employee services		-	2,661	-	2,661
		-	**2,661**	**(30,463)**	**(27,802)**
Balance at 31 December 2013		**542,071**	**43,090**	**204,883**	**790,044**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	Notes	Half-year 31 December 2013 $'000	31 December 2012 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**622,434**	853,651
Payments to suppliers and employees (inclusive of goods and services tax)		**(542,128)**	(753,843)
Transaction costs relating to acquisition of subsidiary and acquisition of business		**-**	(16)
		80,306	99,792
Interest received		**355**	77
Interest paid		**(13,457)**	(14,614)
Income taxes paid		**(173)**	(14,408)
Net cash inflow / (outflow) from operating activities		**67,031**	70,847
Cash flows from investing activities			
Payments for purchase of businesses, net of cash acquired		**-**	(2,461)
Payment for property, plant and equipment		**(34,841)**	(66,678)
Payments for design costs		**(2,019)**	(3,428)
Increase in investments by way of share purchases		**(6,441)**	-
Proceeds from sale of property, plant and equipment		**424**	18,688
Dividends received		**1,649**	1,521
Net cash inflow / (outflow) from investing activities		**(41,228)**	(52,358)
Cash flows from financing activities			
Proceeds from borrowings		**154,214**	72,894
Repayment of borrowings		**(113,236)**	(55,927)
Payments of finance lease liabilities		**(5,308)**	(5,519)
Dividends paid to company's shareholders		**(30,463)**	(32,446)
Net cash inflow / (outflow) from financing activities		**5,207**	(20,998)
Net increase / (decrease) in cash and cash equivalents		**31,010**	(2,509)
Cash and cash equivalents at the beginning of the half-year		**91,822**	101,719
Effects of exchange rate changes on cash and cash equivalents		**1,794**	(643)
Cash and cash equivalents at the end of the half-year		**124,626**	98,567

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of preparation of half-year financial report

This general purpose consolidated financial report for the interim half year reporting period ended 31 December 2013 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Bradken Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. The presentation of financial information may also differ to the previous financial report to facilitate comparability of current year financial information.

(a) Impact of standards issued but not yet applied by the entity

In December 2009, the AASB issued AASB 9 Financial Instruments which addresses the classification and measurement of financial assets and may affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2015 but is available for early adoption. The Group is yet to assess its full impact. The Group has not yet decided when to adopt AASB 9.

(b) Impact of adoption of the revised AASB 119 Employee Benefits

Defined benefit superannuation plans

The group operates three defined benefit plans in its North American operations. The revised AASB 119 has been applied retrospectively from 1 July 2012. This has not had a material impact on the financial statements as the only change in the Group's accounting policy is with respect to the way the Group accounts for the expected return on plan assets. The difference between actual returns and the amount reported in the profit and loss will permanently bypass the profit and loss by being recorded as an actuarial variance.

The Group recognises a liability or asset in respect of defined benefit superannuation plans in the statement of financial position measured as the present value of the defined benefit obligation at the end of the reporting period less the fair value of the superannuation fund's assets at that date. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the end of the reporting period, calculated on a regular basis by independent actuaries using the projected unit credit method.

Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income.

(c) Changes in accounting policy

The following accounting standards are applicable to the Group for the first time during the current period.

AASB 10 Consolidated Financial Statements

AASB 11 Joint Arrangements

AASB 12 Disclosure of Interests in Other Entities ; and

AASB 13 Fair Value Measurement

The adoption of these standards did not have a significant impact on the Group's financial results, balance sheet or disclosures, with the exception of *AASB 13 Fair Value Measurement* , which has resulted in additional disclosure in the notes to the financial statements (Note 7). All other accounting policies are consistent with those adopted and disclosed in the annual financial report for the year ended 30 June 2013. Accounting policies are applied consistently by each entity in the Group.

2 Investments in associates

	Half-year December 2013 $'000
(a) Movements in carrying amounts	
Carrying amount at the beginning of the financial period	**49,261**
Increase in investment by way of share purchases in current period *	**6,441**
Share of profits after income tax	**952**
Dividends received/receivable	**(1,649)**
Carrying amount at the end of the financial period	**55,005**

* During the period, Bradken fully subscribed to its entitlement under the Austin Engineering Limited share placement. This resulted in Bradken paying $6,440,928 to receive 2,012,790 shares in Austin Engineering Limited. As a result there has been no change to Bradken's ownership interest (21.47%) in Austin Engineering Limited.

3 Segment information

(a) Description of segments

Operating segments are reported in a manner that is generally consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the Managing Director.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment. Segment assets include all assets used by a segment and consist primarily of receivables, inventories and property, plant and equipment, net of related provisions.

Segment revenues, expenses and results include transfers between segments. Sales of scrap between controlled entities are made on an "arm's-length" basis and are eliminated on consolidation. All other transfers are made at variable cost and are eliminated on consolidation.

Mining Products consists of design, supply and service of wear components for all types of earth moving in the Mining and Quarry industries. Mineral Processing consists of design supply and service of mill liner components in the Mineral Processing industries. Rail is a package provider of Freight Rollingstock products and services including freight wagons, bogies, drawgear, inventory management, spare and renewed parts and the maintenance and refurbishment of rollingstock. Engineered Products, based in North America, is a supplier of cast parts to the Energy, Power, Cement, Industrial and Rail Transport industries specialising in large (greater than 4,500 kg) highly engineered steel castings.

The "all other" segment also represents other smaller businesses including Cast Metal Services.

(b) Segment information provided to the Managing Director

The segment information provided to the Managing Director for the reportable segments for the half-year ended 31 December 2013 is as follows:

	Mining Products	Mineral Processing	Engineered Products	Rail	All other segments	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Half-year 2013						
Total segment revenue	176,864	137,738	128,412	118,672	78,754	640,440
Inter-segment revenue	(12,062)	(21,001)	(4,816)	(9,210)	(29,780)	(76,869)
Revenue from external customers	164,802	116,737	123,596	109,462	48,974	563,571
Gross margin	59,699	42,050	43,219	27,649	18,266	190,883
Half-year 2012						
Total segment revenue	188,938	130,462	221,904	135,393	106,514	783,211
Inter-segment revenue	(18,590)	(20,350)	(16,998)	(3,486)	(43,271)	(102,695)
Revenue from external customers	170,348	110,112	204,906	131,907	63,243	680,516
Gross margin	59,267	40,514	70,088	17,509	26,339	213,717
Total segment assets						
At 31 December 2013	351,673	338,716	293,830	248,375	126,265	1,358,859
At 30 June 2013	403,769	361,859	336,862	85,364	119,692	1,307,546

Corporate assets are not disclosed separately within the half year financial statements.

	Mining Products	Mineral Processing	Engineered Products	Rail	All other segments	Total
Total segment liabilities						
At 31 December 2013	40,674	28,707	48,830	54,530	19,432	192,173
At 30 June 2013	53,605	47,999	61,268	75,607	22,580	261,059

Corporate liabilities are not disclosed separately within the half year financial statements.

3 Segment information (continued)

The Managing Director assesses the performance of each operating segment based on a measure of gross margin. Gross margin is considered the most relevant measure of individual segment results as manufacturing plants all make product for the various segments and transfer product at cost. This measurement basis excludes the allocation of manufacturing variances and overheads from individual manufacturing plants as any allocation would be arbitrarily based.

A reconciliation of standard gross margin to operating profit before income tax is provided as follows:

	Half-year	
	December 2013 $'000	December 2012 $'000
Gross margin	**190,883**	213,717
Fixed manufacturing overheads and other cost of sale adjustments	**(77,685)**	(70,197)
Other income	**4,050**	4,311
Selling and technical expenses	**(29,307)**	(31,079)
Administration expenses	**(32,544)**	(39,272)
Finance costs	**(17,287)**	(15,768)
Share of net profit of associates accounted for using the equity method	**952**	4,053
Profit before income tax	**39,062**	65,765

The amounts provided to the Managing Director with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

4 Dividends

	Half-year	
	December 2013 $'000	December 2012 $'000
Ordinary shares		
Dividends provided for or paid during the half-year	**30,463**	36,255
Dividends not recognised at the end of the half-year		
In addition to the above dividends, since the end of the half-year the directors have declared the payment of an unfranked dividend of 15.0 cents per fully paid ordinary share (2012 - 20.0 cents fully franked based on tax paid at 30%). The aggregate amount of the dividend to be paid on 21 March 2014 out of retained profits at 31 December 2013, but not recognised as a liability at the end of the half-year, is	**25,386**	33,848

5 Significant items

During the period the company reached a commercial in confidence settlement with Norcast S.ar.L regarding the 2011 acquisition of Norcast. An amount of $30,412k (before tax) had been expensed during the 30 June 2013 financial year pursuant to the legal case relating to the Federal Court of Australia judgment sum, interest and associated costs. As a consequence of the Federal Court of Australia setting aside its initial judgement and the settlement reached with Norcast S.ar.L, a gain of $13,668k (before tax) has been recorded in the current period. The income tax benefit associated with this settlement has been reflected in the current period.

6 Equity securities issued

	Half-year		Half-year	
	December 2013 Shares	December 2012 Shares	**December 2013 $'000**	December 2012 $'000
Issues of ordinary shares during the half-year				
Dividend reinvestment plan issues	**-**	611,286	**-**	3,809
Adjustments to Institutional Placement costs June 2011	**-**	-	**-**	18
	-	611,286	**-**	3,827

7 Fair value measurement

Derivative financial instruments are initially recognised in the statement of financial position at cost and subsequently remeasured to their fair value. Accordingly there is no difference between the carrying value and the fair value of derivative financial instruments at reporting date.

The Group uses two different methods in estimating the fair value of a financial instrument. The methods comprise:-

- Level 1 - the fair value is calculated using quoted prices in active markets; and
- Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

The valuation techniques applied by the Group are consistent with those applied and disclosed in the 2013 annual financial report. As at 31 December 2013, all derivatives measured at fair value are done so using the Level 2 method. There were no transfers between Level 1 and Level 2, and no financial instruments were measured at Level 3 (where fair value is measured using unobservable inputs for the asset or liability) for the periods presented in this report.

The carrying amounts and fair values of interest bearing liabilities at balance date are:

	31 December 2013		30 June 2013	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
On balance sheet				
Non traded financial liabilities				
Bank overdrafts	**3**	**3**	667	667
Bank loans	**336,541**	**339,253**	291,824	294,147
US private placement	**220,895**	**225,051**	218,675	223,025
Other loans	**870**	**870**	975	975
Lease liabilities	**12,548**	**12,548**	11,891	11,891
	570,857	**577,725**	524,032	530,705

8 Offsetting financial assets and liabilities

Bradken presents derivative assets and derivative liabilities on a gross basis. Certain derivative assets and liabilities are subject to enforcable master netting arrangements with individual counterparties if they were subject to default. As at 31 December 2013, if these netting arrangements were to be applied to the derivative portfolio, derivative assets are reduced by $2.75m (30 June 2013: $4.4m) and derivative liabilities are reduced by $2.75m (30 June 2013: $4.4m).

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 4 to 12 are in accordance with the Corporations Act 2001, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Bradken Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of directors.

Brian Hodges	Nick Greiner
Managing Director	Chairman

Sydney
10 February 2014

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To the members of Bradken Limited

Report on the Half Year Financial Report

We have reviewed the accompanying half year financial report of Bradken Limited, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half year.

Directors' responsibility for the half year financial report

The directors of the company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act* 2001 and for such internal controls that the directors determine are necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bradken Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is referenced in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Bradken Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst + Young

Ernst & Young

Trent van Veen
Partner
Sydney
10 February 2014

Code of Conduct and Ethics

Proud to Belong

BRADKEN®

Code of Conduct and Ethics

Bradken is a company with a proud 85 year history. As employees, we pride ourselves on being professional and ethical in all areas of business and strive to ensure that at all times we maintain our integrity and responsibility to the wider community.

We take responsibility for our own behaviour, for the actions we take and for the way in which we conduct both our personal dealings and those of Bradken.

As employees we have a duty to protect and enhance the reputation of Bradken while conducting all business activities. Whilst this may be challenging and require considerable courage, it is critical to the company's long term success.

Bradken's Values continue to evolve, to ensure that the company maintains its standing as a good corporate citizen and complies with all relevant legislation, company policies, guidelines and procedures.

I endorse this publication and encourage all employees to embrace these Values and in all dealings, to act professionally and ethically.

Brian Hodges - Managing Director and CEO

Proud to Belong

Proud to Belong

Our Business Model

The creation of differentiated consumable products for the resources industry and sale of their value to our customers.

Proud to Belong

Our Business Culture

We Value People Who:

- Are health, safety and environmentally responsible;
- Have exemplary personal integrity;
- Enjoy a healthy family and social life;
- Strive for continuous improvement in all that they do;
- Are customer focused;
- Possess courage and loyalty;
- Are highly motivated;
- Work together for common goals;
- Respect the individual rights of others,

ensuring Bradken is a good corporate citizen.

BRADKEN

A number of core values define Bradken as both an employer and a corporate citizen.

Proud to Belong

Health, Safety and Environment

Bradken acknowledges that health, safety and environment (HS&E) is a critical and integral part of effective business and management practices. Bradken integrates HS&E into all areas of its operations so that our sites, equipment and work practices are healthy, safe and environmentally responsible. Bradken promotes HS&E as a value, to ensure that a positive culture of safe behaviour evolves through employee involvement in ongoing education and training programs.

BRADKEN

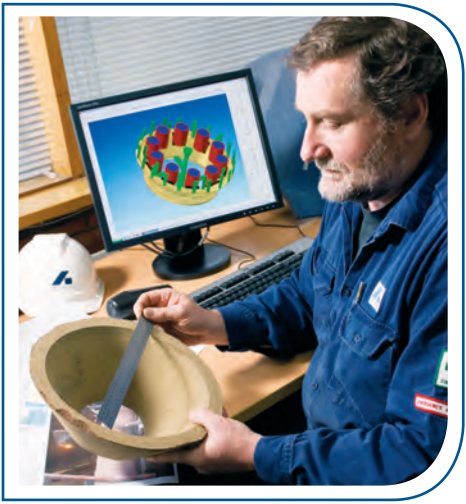
Exemplary Integrity

At Bradken, we place a high importance on personal integrity. We value employees who strive at all times to adhere to the law and meet the expectations of their colleagues, customers and the community.

Work Life Balance

At Bradken, we recognise that a happy, healthy work life must be balanced by an employee's family, friends and community involvement. For this reason, Bradken values employees' commitments outside the workplace as much as we value success at work.

Continuous Improvement



To be successful in our markets, Bradken must create increased value for our customers. We recognise that this success can only be achieved through ongoing technological development, employee education and training, and the commitment of our employees to continuous improvement and innovation.

Customer Focused

Our customers are an integral part of our business. We value employees who strive at all times to work with our customers to understand their needs and expectations and to build positive business relationships by delivering on their commitments.

Courage and Loyalty

The dedication of our employees through their service is highly valued at Bradken. Our employees' contributions of ideas, skills, energy and experience allow us to grow and prosper. While the easy solution is safe and comfortable, Bradken encourages its employees to explore alternative options, to take risk and to go the extra yard when exploring new avenues for success.

Proud to Belong

Motivation

Bradken values employees who are self motivated and committed to success. We strive to foster a work environment which empowers all employees to achieve outstanding results.

BRADKEN

Teamwork

Bradken acknowledges that teamwork is the cornerstone to our future success. Only when our employees pool their skills, talent and knowledge can we achieve our ambitious goals. We recognise the whole is more than the sum of the parts.

Respect

At Bradken, we not only respect and appreciate each other's differences, we endeavour to learn and grow through the experience.

BRADKEN

Our Business Dealings

In our business dealings, we set the highest standards by:

- Striving to be good corporate citizens;
- Respecting the law;
- Respecting confidentiality and privacy;
- Avoiding conflicts of interest;
- Acting with honesty and integrity;
- Maintaining personal and professional values; and
- Accepting the consequences of our actions.

1. We strive to be good corporate citizens

We uphold Bradken's Values and are committed to the business objectives of the Company while striving to be good corporate citizens.

In all dealings, we consider the effects of our actions on our colleagues, customers and the wider community.

We believe that good corporate citizenship is more than an occasional gesture, but an ideal that is integrated into every decision-making process.

2. We respect the law and act accordingly

We understand that violation of laws and regulations can have serious consequences for Bradken and ourselves, therefore, we comply with the laws and regulations in all countries in which the company operates or transacts business.

We follow and obey the policies and procedures prescribed by Bradken so as to ensure that our actions comply with good business practices, ethical behaviours and expectations.

Throughout the course of our employment and in compliance with corporate policy, we notify the appropriate people responsible for taking action when we observe or become aware of any breach of the law.

BRADKEN

3. We respect confidentiality and privacy

At all times, we treat as confidential the business affairs of Bradken and those of our customers, colleagues and business associates, maintaining compliance with the privacy laws governing the use and disclosure of information.

We respect the privacy of others and keep confidential the disclosure of all sensitive, personal or privileged information of others.

We do not use confidential information for personal gain or for the benefit of others such as friends, relatives or business associates.

If at any time we are in doubt or uncertain whether an action we have taken has been or resulted in a breach of this Code, we can raise the matter, in confidence, with our Supervisor or Manager and be assured that we will receive a fair hearing.

4. We avoid conflicts of interest

We avoid participating in activities that involve a conflict with our duties and responsibilities to Bradken or which may be perceived as prejudicial to Bradken's business interests.

We do not become involved in any business activities outside our employment that could adversely affect our ability or commitment to perform our duties and responsibilities to Bradken.

We do not solicit, accept or offer inducements or favours, which might influence or adversely affect our business judgement, professionalism or relationships with others.

5. We act with honesty and integrity

We are judged by our actions, therefore, if we act with honesty and integrity in all dealings and strive to always do the right thing, we will earn the respect and admiration of others.

We do not tolerate dishonest behaviour by our colleagues or customers and always endeavour to avoid conflict or activities, which may harm the good reputation of Bradken and ourself.

We do not use information provided by others for personal gain or betterment and in all things, endeavour to provide accurate and honest information to our customers and colleagues.

6. We maintain our personal and professional values

In all ways, to foster and preserve our personal reputation and that of Bradken, we conduct ourselves in a professional and ethical manner and pursue excellence in our pursuit of the highest possible quality of work.

We maintain and strive to improve the skills, knowledge and competencies required to fulfil our role in the company and always work as an effective team member, striving for a safe, harmonious and effective work environment.

We do not tolerate harassment or unlawful discrimination and are committed to diversity, equal opportunity and a “fair go” for all.

7. We accept the consequences of our actions

We understand that our actions can have a dramatic effect on the performance of our duties and the reputation of Bradken and therefore the responsibilities we have to Bradken.

We accept as a consequence of our actions in violating this Code of Conduct and Ethics that disciplinary action may be an outcome and in extreme cases such action may result in the termination of our employment contract.

Other Business Practices

Restrictive Trade Practices

Bradken employees will comply with the law at all times. As trade practices principles affect the Company's daily business operations, it is essential that all Company business activities compete in conformity with prescribed legislation.

Employees will comply with legislation established to provide, maintain and protect competition for the benefit of all customers. No employees shall make any untruthful remarks about any of the Company's competitors, their products or services.

The basic principles underlying these rules are that:

- all companies must act independently of each other in their business activities and maintain healthy rivalry;
- all companies must be considerate to their customers and suppliers but distant from their competitors, and
- large companies must not use their size to manipulate smaller ones.

The following conduct is prohibited, no matter what the circumstances:

- **Resale price maintenance** i.e. requiring distributors to sell products at certain prices or set a minimum price;
- **Forcing anothers' product** i.e. placing a condition on the supply of goods or services where a customer must acquire goods or services from a nominated supplier;

- **Price fixing** i.e. making an agreement which would have the purpose or effect of fixing, controlling or maintaining the price of goods or services;
- **Arrangements to exclude** i.e. an arrangement between parties to exclude another;
- **Exclusive dealing** i.e. where one entity in a business relationship places restrictions on the freedom of the other to deal with outsiders – that is, to trade competitively;
- **Anti-competitive arrangements** i.e. arrangements between businesses which prevent, restrict or distort competition;
- **Secondary boycott** i.e. an attempt to influence the actions of one business by exerting pressure on another business;
- **Misuse of market power** i.e. preventing the entry of a competitor into a market, or deterring or preventing a competitor from engaging in competitive conduct in a market; and
- **Unconscionable conduct** i.e. the use of a superior bargaining position to enforce harsh contractual conditions against another party.

In addition to the above prohibitions, there are high risk situations, which employees should be cognisant of. These include:

- Pricing arrangements;
- Dealing with competitors;
- Dealing with trade associations;
- Refusal to supply, and
- Following or being a market leader.

BRADKEN

Travelling on Behalf of Bradken

Travelling, particularly to overseas countries, means that we must be conscious of any cultural differences which may exist. Whilst we endeavour to respect these differences, we must uphold the values that are core to Bradken.

Bradken is responsible for an employee's safety 24 hours a day when travelling. To this end, Bradken provides travel insurance for all employees throughout the duration of their travel. This means that employees are representatives of Bradken both during and outside normal working hours.

It is expected that travellers will make appropriate enquiries prior to visiting unfamiliar destinations including seeking recommendations for vaccinations or other specific medications, to ensure that they are aware of potential health risks, regional issues and differing laws and customs. When travelling in foreign countries, engaging an experienced guide or consulting local Bradken senior management may be the best way of avoiding any potentially unsafe situations.

Bradken will not tolerate any activities that may lead to involvement in excessive consumption of alcohol, taking of illicit drugs, prostitution, illegal activities or any behaviour that may bring into disrepute either the Company or an employee.

Bradken in Other Countries

Bradken is developing new overseas businesses and the Company's reputation and culture are critical assets to its continuing success.

When overseas, all employees need to be cognisant of the fact that they are ambassadors of both Bradken and their country.

Whilst overseas, employees should be aware of the following.

- **You may find yourself in a situation in which you do not wish to participate**. It is important that you say "no" in a way that will not offend.
- **You may be seen as having more authority than your position holds**. You need to be careful to act within your authority limits and ensure that your behaviour is not misleading.
- **You may need to take public transport from a location frequented by beggars and pickpockets where English signage is poor**. It is often better to have a local person take you to these areas.
- **You may be required to take a taxi to your destination**. Look at the condition of the vehicle and ensure that it is with a reputable company.
- **You may be invited to accept a gift**. Look at the appropriateness of the gift. Gifts are not normally accepted during any negotiation period.
- **You may be offered an inducement**. Bradken does not participate in or condone the practice of accepting gratuities, bribes or inducements by its employees or business partners.

BRADKEN

Whistleblowing

In keeping with Bradken's goal of creating a climate in the company where the truth can be heard, all employees are actively encouraged to challenge any behaviour which they believe to be inconsistent with any of our Values or our Code of Conduct and Ethics. All such challenges, including those concerning acting with integrity, will be handled constructively, with the objective of either remedying the issue or explaining why the behaviour is considered consistent with our business culture.

We encourage all of our employees to report any behaviour which they, acting in good faith, believe to be:

- Dishonest;
- Fraudulent;
- Corrupt;
- Illegal (including theft, drug sales/use, violence or threatened violence and criminal damage against property);
- In breach of government legislation;
- Unethical;
- Seriously improper (including harassment and bullying);
- Unsafe work practice; or
- Behaviour which may cause financial and non-financial loss to Bradken or would be otherwise detrimental to the interests of Bradken.

Individuals who report or seek to report unlawful or unethical behaviour will be given a guarantee of anonymity (if anonymity is desired by them), subject to any legal requirements which may require disclosure of the identity of the individual.

Bradken will ensure that any individual who makes a report is kept informed about the outcomes of the investigation of his or her report, subject to considerations of the privacy of those against whom the allegations are made and our customary practices of confidentiality.

Bradken has in place internal reporting arrangements to ensure that all verifiable, unlawful or unethical behaviour is dealt with appropriately, and commits to rectify the wrong doing verified by the investigation to the extent practicable in all the circumstances, and ensure that systematic and recurring problems of unlawful or unethical behaviour are reported to those with sufficient authority to correct them.

Equal Opportunity

Bradken is committed to providing a work environment in which the principles of equal opportunity are incorporated into all business decisions. Bradken, as an employer has a strong commitment to equal opportunity in employment and recognises the right of all employees to be treated fairly and with respect at all times and works in an environment free from harassment and discrimination.

Bradken will not tolerate discrimination in any form and will take disciplinary action against any person or persons discriminating against another individual or group.

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SECTION B
PART B TECHNICAL PROPOSAL AND STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

NOTE: The Authority reserves the right to audit compliance with respect with each of required statements and certifications in the forms submitted by Offerors, including but not limited to the Domestic U.S. Content Certification, Domestic U.S. Content Worksheet, and Final Assembly of Production (Non-Pilot) Vehicles in Massachusetts.

Questions Concerning Eligibility

Provide short answers (and attach relevant documents) to the following questions and requests:

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.
   A:N/A
2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.
   A:

Name	Telephone No.
China CNR Corporation Limited	+86-10-51897000
Jilin Province Golden Bean Industrial Group Co., Ltd.	+86-431-88522143
Jinchuang Group Co., Ltd.	+86-519-88375888
Jiangsu Joint Investment Co., Ltd.	+86-25-86686056
China Railway science and technology development Co., LTD.	+86-10-51849183
Jilin Dunhua Forestry Co. Ltd.	+86-433-6209703

   The website of CNR CRC is Http://www.crc.chinacnr.com
3. Provide the names, title and telephone numbers of all officers.
   A:

Name	Title	Telephone No.
Run Wang	President	+86-431-87832888
Zhongyi An	General Manager	+86-431-87831888
Xiaomin Chen	Vice President	+86-431-87902674
Yanjun Lou	Deputy Secretary of the Party committee	+86-431-85585555
Zhichao Liang	Vice General Manager	+86-431-87902460
Detian Niu	Vice General Manager	+86-431-87903298

Fengwu Han	Vice General Manager	+86-431-87901593
Jinying Di	Chief Financial Officer	+86-431-87902525
Chuanhe Zhou	Vice General Manager	+86-431-87901462
Jingyi Li	Vice General Manager	+86-431-87901578
Hongguang Ma	Vice General Manager	+86-431-87901380
Minghua Zhao	Chief Engineer	+86-431-87901121
Hongbo Yu	Vice General Manager	+86-431-87902645
Zhitai Liu	Vice General Manager	+86-431-87954562

4. Has the business or an owner of shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.
   A: No.
5. Has the business owners, shareholders, or officers ever been in default of any obligations under a contract with MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.
   A: No.
6. Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state of local laws? If yes, Please describe the circumstances.
   A: No.
7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.
   A: No.
8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

   Information of two potential insurance agent for this project are as below:

   Name: Lockton Companies
   Address: 1185 Avenue of the Americas, Suite 2010 New York, New York, 10036 UNITED STATES
   Contact person: Michael Lombardi
   Telephone No: +1 646 572 3923
   Account number: 004832042517

   Name: Willis of Massachusetts, Inc.
   Address: Three Copley Place, Suite 300, Boston, MA 02116
   Contact person: Nancy Rogers
   Telephone No： +1 617-351-7405.

Account number: 1000151314514

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

Name: Bank of China Ltd. Changchun FAW sub-branch
Address: No. 2039 Dongfeng Street, Changchun of China
Contact Person: Wang Wei Business Department Vice-Manager
Telephone: +86-431-85826028

NAI Hunneman
303 Congress Street, Boston MA
Mr. F. Michael DiGiano, Executive Vice President
Phone 617-457-341-

Edward Wildman Palmer LLP
Huntington Avenue Boston, MA 02199
Mr. Gerald Hendrick, Partner
Phone 617-951-2222

10. Has the business or any of the business's owners of shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?
A: No.
11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, probed the last three (3) years audited financial statements for each entity.
A: Please see Appendix 1 for CNR CRC's brief financial statements. A full financial statement has been provided for CNR CRC in this proposal in **PART B ATTACHMENTS**- Attachment 2.
12. Provide the business's the current code of business ethics or equivalent.
A: Please see our response as below:

CNR CRC is a world class manufacturer that adopts as its mission to become the leader in manufacturing, innovation, design, technical capability, and customer support. We believe in honesty, integrity, mutual support and respect. Our values shape the culture of our company. It is through these values, and their practice in our world, that we become what we do. We believe that our actions, when viewed by all others, must support our intentions. Our success depends upon the ability of our employees and all of our representatives, to make decisions and to act in a manner that is consistent with these

values. We will conduct our business with honesty and integrity, and we will act in a manner that does not harm the reputation of our company.

What Do We Value?

Excellence

We respect winning with integrity.

We strive to set and achieve the highest standards.

We want to do things the right way.

We seek to learn continuously.

We strive to make better places of the communities we work, serve, and live.

Teamwork

We treat one another with respect and communicate clearly.

We encourage ideas.

We support each other and the communities we work, serve and live in.

We treasure diversity because it fosters innovation.

We take pride in our work and in the products we make.

We assume responsibility for our work and our actions.

We create an environment where questions and issues can be raised without fear.

Customer Relations

We strive to execute flawlessly.

We continuously seek to improve our products, our service, and our responsiveness.

Our customer relationships are based upon trust and mutual advantage.

We compete vigorously, with a sense of pride in being fair and honest in our actions.

We try to anticipate the needs of our customers.

We take pride in our relationships, our dealings, and our position in serving our customers.

Changchun Railway Vehicles Co., Ltd.

Consolidated Balance Sheet

Dec. 31st, 2010

(Monetary Unit: CNY)

	Notes	Year 2010	Year 2009
Assets			
Current Assets			
Monetary Funds	7	312,115,997.47	655,917,643.24
Notes Receivable	8	-	1,500,000.00
Accounts Receivable	9	714,795,620.89	1,550,084,717.14
Prepayments	10	2,741,362,697.15	1,854,631,348.81
Other Receivables	11	89,131,734.26	70,945,446.99
Inventories	12	8,671,879,497.13	2,668,943,903.55
Other Current Assets	13	356,951,185.72	254,367,522.09
Total Current Assets		12,886,236,732.62	7,056,390,581.82
Non-current Assets			
Long-term Equity Investment	14	248,643,443.46	252,401,575.59
Fixed Assets	15	2,850,837,352.36	1,739,231,571.42
Construction in Progress	16	2,168,838,303.81	1,345,854,754.30
Construction Materials		581,536,203.32	493,642,205.43
Intangible Assets	17	888,673,159.05	867,209,361.56
Development Expenditure		8,620,259.08	6,933,037.24
Long-term Unamortized Expenses		3,130,339.27	4,106,083.00
Deferred Income Tax Assets	18	24,486,993.77	18,525,776.73
Other non-current Assets		227,588,404.00	-
Total Non-current Assets		7,002,354,458.12	4,727,904,365.27
Total Assets		19,888,591,190.74	11,784,294,947.09

Notes to financial statements published on page 23 to page 103 are the integrated part of this financial statement.

Changchun Railway Vehicles Co., Ltd.
Consolidated Balance Sheet (Continued)
Dec. 31st, 2010
(Monetary Unit: CNY)

	Notes	Year 2010	Year 2009
Liabilities and Owner's Equity			
Current Liabilities			
Short-term Loan	19	81,841,042.07	64,507,886.52
Notes Payable	20	470,760,472.04	107,640,512.72
Accounts Payable	21	3,899,795,483.89	3,048,530,900.27
Advances Received	22	8,211,074,369.94	3,823,093,649.31
Payroll Payable	23	201,058,681.77	237,717,219.67
Taxes payable	5(3)	38,871,705.54	110,261,818.49
Interests Payable		2,128,933.47	2,043,236.25
Dividends Payable	24	24,285,517.95	17,390,758.06
Others Payable	25	327,793,104.49	156,269,789.42
Non-current Liabilities Due Within One Year	26	82,720,853.86	-
Estimated Liabilities	27	96,203,977.05	45,310,033.33
Total Current Liabilities		13,436,534,142.07	7,612,765,804.04
Long-term Liabilities			
Long-term Loan	28	863,000,000.00	125,000,000.00
Long-term Accounts Payable	29	173,328,969.52	144,301,551.65
Other Non-current Liabilities	30	144,797,521.54	168,301,000.00
Total Non-current Liabilities		1,181,126,491.06	437,602,551.65
Total Liabilities		14,617,660,633.13	8,050,368,355.69

Notes to financial statements published on page 23 to page 103 are the integrated part of this financial statement.

Changchun Railway Vehicles Co., Ltd.
Consolidated Balance Sheet (Continued)
Dec. 31st, 2010
(Monetary Unit: CNY)

	Notes	Year 2010	Year 2009
Liabilities and Owner's Equity (Continued)			
Owner's Equity			
Paid-in Capital	31	2,079,387,600.00	1,671,976,870.00
Capital Surplus	32	2,489,729,081.80	1,843,717,191.68
Surplus Reserves	33	82,784,589.33	26,773,407.14
Undistributed Profit	34	588,820,884.64	184,980,274.36
Total Owner's Equity Attributable to the Parent Company		5,240,722,155.77	3,727,447,743.18
Minority Shareholder's Equity		30,208,401.84	6,478,848.22
Total Owner's Equity		5,270,930,577.61	3,733,926,591.40
Total Liabilities and Owner's Equity		19,888,591,190.74	11,784,294,947.09

This financial statement has been approved by management on Mar. 31st, 2011.

Dong Xiaofeng	Lu Xiwei	Di Jinying	Liu Qi
Legal Representative	The Head in Charge of Financial Work	Financial Controller	The Head of Accounting Body(Company Seal)
(Signature and Seal)	(Signature and Seal)	(Signature and Seal)	(Signature and Seal)

Notes to financial statements published on page 23 to page 103 are the integrated part of this financial statement.

Changchun Railway Vehicles Co., Ltd.
Balance Sheet
Dec. 31st, 2012
(Monetary Unit: CNY)

	Notes	Year 2012	Year 2011
Assets			
Current Assets			
Monetary Funds	6	381,892,665.28	348,336,436.13
Notes Receivable	7	22,100,000.00	66,680,704.00
Accounts Receivable	8	5,152,925,539.65	3,313,978,622.91
Prepayments	9	977,380,393.93	1,531,410,313.97
Dividends Receivable		-	60.000.000.00
Other Receivables	10	47,489,822.03	113,117,090.36
Inventories	11	8,712,757,463.36	12,702,930,399.99
Other Current Assets	12	-	30,880,880.58
Total Current Assets		15,294,545,884.25	18,167,334,447.94
Non-current Assets			
Long-term Equity Investment	13	317,359,904.17	306,993,063.57
Fixed Assets	14	5,810,503,986.12	3,655,390,453.43
Construction in Progress	15	923,690,691.19	2,730,140,901.68
Construction Materials		54,690,854.43	14,733,131.29
Intangible Assets	16	1,319,476,399.93	1,129,156,563.84
Long-term Unamortized Expenses		-	898,040.75
Deferred Income Tax Assets	17	54,947,873.35	34,409,135.18
Other Non-current Assets		107,588,404.00	142,416,164.00
Total Non-current Assets		8,588,258,113.19	8,014,137,453.74
Total Assets		23,882,803,997.44	26,181,471,901.68

Notes to financial statements published on page 21 to page 96 are the integrated part of this financial statement.

Changchun Railway Vehicles Co., Ltd.
Balance Sheet (Continued)
Dec. 31st, 2012
(Monetary Unit: CNY)

	Notes	Year 2012	Year 2011
Liabilities and Owner's Equity			
Current Liabilities			
Short-term Loan	19	1,070,000,000.00	2,767,805,884.26
Notes Payable	20	1,930,241,837.12	1,896,865,044.68
Accounts Payable	21	6,939,080,361.19	7,492,193,244.08
Advances Received	22	3,147,505,932.90	4.189.118.356.90
Payroll Payable	23	165.649.438.55	193.324.740.63
Taxes payable	4(3)	374.639.456.01	12.610.610.86
Interests Payable		7.704.231.96	5.514.540.44
Dividends Payable		1.305.929.249.91	316.386.013.58
Others Payable	24	516.729.936.31	310.336.223.60
Non-current Liabilities Due Within One Year	25	144.819.542.32	167.242.863.36
Other Current Liabilities	26	249,430,137.17	159,655,707.32
Total Current Liabilities		15,851,730,123.44	17,511,053,229.71
Long-term Liabilities			
Long-term Loan	27	996.420.000.00	1.091.680.000.00
Long-term Accounts Payable	28	123.842.139.86	911.634.191.67
Special Accounts Payable		75,890,000.00	75,890,000.00
Other Non-current Liabilities	29	610,242,004.12	473,703,958.21
Total Non-current Liabilities		1,806,394,143.98	2,552,908,149.88
Total Liabilities		17,658,124,267.42	20,063,961,379.59

Notes to financial statements published on page 21 to page 96 are the integrated part of this financial statement.

Changchun Railway Vehicles Co., Ltd.
Balance Sheet (Continued)
Dec. 31st, 2012
(Monetary Unit: CNY)

	Notes	Year 2012	Year 2011
Liabilities and Owner's Equity (Continued)			
Owner's Equity			
Paid-in Capital	30	2,079,387,600.00	2,079,387,600.00
Capital Surplus	31	2,450,041,734.91	2,449,637,374.45
Surplus Reserves	32	340,372,202.68	205,483,379.66
Undistributed Profit	33	1,354,878,192.43	1,383,002,167.98
Total Owner's Equity		6,224,679,730.02	6,117,510,522.09
Total Liabilities and Owner's Equity		23,882,803,997.44	26,181,471,901.68

This financial statement has been approved by management on April 9th, 2013.

Dong Xiaofeng	Lu Xiwei	Di Jinying	Cao Xuming
Legal Representative	The Head in Charge of Financial Work	Financial Controller	The Head of Accounting Body(Company Seal)
(Signature and Seal)	(Signature and Seal)	(Signature and Seal)	(Signature and Seal)

Notes to financial statements published on page 21 to page 96 are the integrated part of this financial statement.

SECTION B

PART B TECHNICAL PROPOSAL AND
STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

NOTE: The Authority reserves the right to audit compliance with respect to each of the required statements and certifications in the forms submitted by Offerors, including but not limited to the Domestic U.S. Content Certification, Domestic U.S. Content Worksheet, and Final Assembly of Production (Non-Pilot) Vehicles in Massachusetts.

Questions Concerning Eligibility

Provide short answers (and attach relevant documents) to the following questions and requests:

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts. Provided and/or attached.

2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company. N/A

3. Provide the names, title and telephone numbers of all officers.

   James Frantz, CEO
   1242 S. Colorado St., Salem, VA 24153
   864 277 5000

   Stephane Mazza, CFO
   50 Beechtree Blvd., Greenville SC 29605
   864 277 5000

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.

   Yes. We provide Graham White (Faiveley Transport owned subsidiary) Air Dryer, Compressor Control and Sanding Systems to MBTA Rolling Stock.

5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.

   No

6 . Have any of the business owners, shareholders, or officers every been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.

No

7 . Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.

No

8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

Scheetz Hogan Freeman
& Phillips
PO Box 16748, Greenville, SC 29606
Ronald D. Scheetz
Phone: 864-232-5162
Fax: 864-232-5417

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

Bank:

Wells Fargo Bank, N.A.
15 S. Main Street, 3rd Floor
Greenville, SC 29601
Ph: 864-255-8143
Fx: 864-467-2543
Contact is Jessica Duke

Credit:

a) TMT (Barry Leonard- Owner)
145 Whitmore Cove CT
Clemmons, NC 27012
336-778-9306

b) Anta (Janelle Carreto- C/S)
32 RichBoynton Rd
Dover, NJ 07801
973-366-2222 (ext 211)

c) Watson Engineering (Tom Scott - GM)
1350 Shiloh Church Road
Piedmont, SC 29673
864-846-8040

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?

No

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity. Provided and/or attached.

12. Provide the business's current code of business ethics or equivalent. Provided and/or attached.

The Commonwealth of Massachusetts
Secretary of the Commonwealth
State House, Boston, Massachusetts 02133

William Francis Galvin
Secretary of the
Commonwealth

Date: February 07, 2014

To Whom It May Concern :

I hereby certify that according to the records of this office,

ELLCON-NATIONAL, INC.

a corporation organized under the laws of

NEW YORK

on **July 25, 1910** was qualified to do business in this Commonwealth on **January 28, 2014** under the provisions of the General Laws, and I further certify that said corporation is still qualified to do business in this Commonwealth.

I also certify that said corporation is not delinquent in the filing of any annual reports required to date.

In testimony of which,
I have hereunto affixed the
Great Seal of the Commonwealth
on the date first above written.

William Francis Galvin

Secretary of the Commonwealth

Certificate Number: 14026134920
Verify this Certificate at: http://corp.sec.state.ma.us/CorpWeb/Certificates/Verify.aspx
Processed by: jmu

(6) Fiscal year end: March, 31
(month, day)

(7) Brief description of the corporation's activities to be conducted in the commonwealth:

Selling products and services for the railway industry.

(8) Names and business addresses of its current officers and directors:

	NAME	BUSINESS ADDRESS
President: CEO:	James Frantz	1242 S. Colorado St., Salem, VA 24153
Vice-president:		
Treasurer: CFO:	Stephane Mazza	50 Beechtree Blvd, Greenville, SC 29605
Secretary:	Stephane Mazza	50 Beechtree Blvd, Greenville, SC 29605
Assistant secretary:		
Director(s): See Attachment		

Attach certificate of legal existence or a certificate of good standing issued by an officer or agency properly authorized in the jurisdiction of organization. If the certificate is in a foreign language, a translation thereof under oath of the translator shall be attached.

This certificate is effective at the time and on the date approved by the Division, unless a later effective date not more than 90 days from the date of filing is specified: ______

FAIVE-1 OP ID: NM

ACORD

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY) 01/23/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER Scheetz Hogan Freeman & Phillips PO Box 16748 Greenville, SC 29606 Ronald D. Scheetz Phone: 864-232-5162 Fax: 864-232-5417	CONTACT NAME: PHONE (A/C, No, Ext): FAX (A/C, No): E-MAIL ADDRESS: nancym@shfpins.com
INSURED Faiveley Transport USA, Inc. Ellcon-National, Inc, Amsted Rail-Faiveley, LLC Graham White Manufacturing POB 9377 Greenville, SC 29605	INSURER(S) AFFORDING COVERAGE / NAIC # INSURER A : AXA Insurance Company INSURER B : The Charter Oak Fire Insurance INSURER C : Great American Insurance Co. INSURER D : INSURER E : INSURER F :

COVERAGES **CERTIFICATE NUMBER:** **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	GENERAL LIABILITY X COMMERCIAL GENERAL LIABILITY X CLAIMS-MADE ☐ OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: ☐ POLICY ☐ PRO-JECT ☐ LOC			PCS001185	04/01/2013	04/01/2014	EACH OCCURRENCE	$ 1,000,000
							DAMAGE TO RENTED PREMISES (Ea occurrence)	$ 100,000
							MED EXP (Any one person)	$ 5,000
							PERSONAL & ADV INJURY	$ 1,000,000
							GENERAL AGGREGATE	$ 2,000,000
							PRODUCTS - COMP/OP AGG	$ 2,000,000
								$
B	AUTOMOBILE LIABILITY X ANY AUTO ☐ ALL OWNED AUTOS ☐ SCHEDULED AUTOS ☐ HIRED AUTOS ☐ NON-OWNED AUTOS			Y8108284 B051	04/01/2013	04/01/2014	COMBINED SINGLE LIMIT (Ea accident)	$ 1,000,000
							BODILY INJURY (Per person)	$
							BODILY INJURY (Per accident)	$
							PROPERTY DAMAGE (Per accident)	$
								$
A	X UMBRELLA LIAB X OCCUR EXCESS LIAB X CLAIMS-MADE DED RETENTION $			XS001186	04/01/2013	04/01/2014	EACH OCCURRENCE	$ 10,000,000
							AGGREGATE	$ 10,000,000
								$
C	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y / N ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? ☐ (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N / A		WC6172092	10/01/2013	10/01/2014	X WC STATU-TORY LIMITS / OTH-ER	
							E.L. EACH ACCIDENT	$ 1,000,000
							E.L. DISEASE - EA EMPLOYEE	$ 1,000,000
							E.L. DISEASE - POLICY LIMIT	$ 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

CERTIFICATE HOLDER	CANCELLATION
MBTA-01 MBTA 10 Park Plaza #3910 Boston, MA 02116	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE Ronald D. Scheetz

FINANCIAL REPORT
2010-2011

Faiveley
TRANSPORT
For all the trains in the world

CONTENTS

MANAGEMENT REPORT OF THE MANAGEMENT BOARD

TO THE COMBINED GENERAL MEETING OF 14 SEPTEMBER 2011

Ladies and gentlemen,

We have convened this General Meeting, in compliance with legal and regulatory requirements, to submit for your approval the Faiveley Transport annual and consolidated financial statements at 31 March 2011.

These financial statements have been prepared in accordance with Articles L 232-1 and L 233-16 of the Commercial Code.

The parent company and consolidated financial statements have been approved by the Management Board on 9 June 2011 and were presented to the Supervisory Board and approved at their meeting of 9 June 2011.

This report has been compiled by applying Articles L 232-1 paragraph 2 and L 233-26 of the Commercial Code. It was made available to the shareholders prior to the General Meeting in accordance with legal and regulatory requirements.

The annual financial statements of Faiveley Transport and the consolidated financial statements have been compiled in conformity with legal and regulatory rules of presentation and valuation.

- Change to the term of office of members of the Supervisory Board:

  The Combined General Meeting of 13 September 2010 amended the bylaws of the Company and reduced the term of office of members of the Supervisory Board to three years.

- Changes in Group governance:

  On 1 September 2010, Guillaume Bouhours was appointed Chief Financial Officer to replace Etienne Haumont. On the same day, Etienne Haumont resigned his term of office as a member of the Management Board.

  Robert Joyeux resigned his duties as Chief Executive Officer and Chairman of the Management Board of Faiveley Transport at 31 March 2011. On 1 April 2011, Thierry Barel, previously Deputy Chief Executive Officer, was appointed Chief Executive Officer and Chairman of the Management Board. On the same day, Guillaume Bouhours was appointed as a member of the Management Board.

- The Combined General Meeting of 13 September 2010 delegated to the Management Board its powers in relation to:

  – granting share subscription and/or purchase options;
  – allocating free shares, also known as performance-based shares, either existing or to be issued;
  – issuing shares or marketable securities giving right to new or existing shares of the Company, with, in cases new shares are granted, the waiver of the pre-emption right.

The Management Board decided, in its meetings held on 3 December 2010 and 24 February 2011, to implement the authorisation to issue free shares, for a total of 69,700 shares. The final allocation, in accordance with pre-defined performance criteria, will take place at the end of a two-year vesting period starting from the date of allocation. Thierry Barel, a beneficiary of free shares as part of this plan, must retain the shares allotted to him in his capacity as Chief Executive Officer. The Supervisory Board of the Company decided in its meeting of 26 November 2010 that the Chief Executive Officer must retain at least 50% of the shares allotted to him by the Management Board in relation to this plan, after the end of the vesting period established by plan regulations. This rule will apply until the Chief Executive Officer holds at least one year of net salary in Company shares granted within the framework of the various stock option or free share allocation plans of the Company.

A. GROUP OPERATIONS 2010/2011 – CONSOLIDATED FINANCIAL STATEMENTS

In accordance with legal provisions, the financial statements of companies under direct or indirect control of Faiveley Transport were consolidated at 31 March 2011 with those of the parent company. The principles and conditions of this consolidation for the financial year 2010/2011, the related scope of consolidation and the restatements undertaken in accordance with the accounting techniques of consolidation are presented in the notes to the consolidated financial statements.

A.1. Consolidation methods

The year ended on 31 March 2011 and had a standard duration of 12 months.

A.2. Changes in group structure

- Newly-created companies:

  On 30 July 2010, Faiveley Transport's American subsidiary, Ellcon National, and Amsted Rail, worldwide leader for the manufacture of bogy components for the freight market announced the creation of a joint venture, Amsted Rail-Faiveley LLC, based at Ellcon National's premises in Greenville, South Carolina and whose share capital is under the majority control of Faiveley Transport USA.

  This new company started operating on 1 October 2010.

  Faiveley Transport brings to this company a wide range of AAR (Association of American Railroads)-approved brake equipment destined towards the railway freight market, as well as its engineering & project management abilities and associated industrial production methods – assets which were previously held by its American subsidiary, Ellcon-National. Ellcon-National mainly retains its passenger train activities.

Amsted Rail provides the company with access to its US and international distribution network, as well as a portfolio of braking equipment that will complement Ellcon-National's contribution.

Faiveley Transport USA initially held 67.5% of the joint venture's share capital and is in charge of appointing the management. Amsted Rail is entitled to increase its investment from 32.5% to a maximum of 49% by re-investing the dividends received from the joint-venture.

- Acquisitions of subsidiaries:
  - In the fourth quarter of 2010/11, Faiveley Transport announced the acquisition of 80% of Urs Dolder AG, a company based in Haegendorf, Switzerland. Urs Dolder AG employs 19 people with annual sales of €4 million. The company produces heating devices for the railway industry.
    This acquisition will enable the Faiveley Transport Group to offer a complete system of railway air treatment – and air conditioning, both for local Swiss customers and for other carbuilders and operators worldwide.
  - In the fourth quarter of 2010/11, Faiveley Transport acquired the 25% minority interests in its Czech subsidiary, Faiveley Transport Lekov, its centre of expertise for pantographs and associated electromechanical equipment.
- Merger:

  At 31 March 2011, Espas was merged into Faiveley Transport Tours. This merger was recognised for accounting and tax purposes retrospectively to 1 April 2010.

A.3. Subsidiary operations

- **Annual sales**

By region of delivery	2010/2011	2009/2010
Europe	557,966	594,118
Americas	79,141	67,800
Asia – Pacific	268,907	198,319
Rest of world	7,858	15,711
TOTAL GROUP	**913,872**	**875,948**

Faiveley Transport reported sales growth of 4.3% for the 2010/11 financial year, to €914 million. On a like-for-like basis, Group sales grew moderately (organic growth of 0.5%), in line with forecasts released at the start of the year. The foreign exchange effects had a favourable effect of 3.8% on growth.

The moderate growth in sales on a like-for-like basis reflected contrasting developments in the various regions:

- strong growth in the Asia-Pacific region (up 25%), driven by China and India;
- buoyant sales in the Americas (up 7%), due to a strong performance in Brazil and the beginning of a recovery in the freight market in the US; and
- a decline in Europe (down 7%), in particular in Spain (impact of the economic crisis) and in France (finalisation of delivery of major projects, such as AGC).

The Customer Services business achieved organic sales growth of 5%, thanks to a larger customer base and a strategy of expanding the range of services proposed to railway operators. Original equipment sales declined by 2%, primarily due to the postponement of the delivery schedule of a number of customer projects.

- **Sales by activity**

	2010/2011	2009/2010	2008/2009
Air conditioning	15%	17%	18%
Couplers	2%	2%	2%
Customer Services	33%	31%	31%
PIC	7%	8%	9%
Brakes	25%	24%	25%
On-board doors	12%	13%	12%
Platform doors and gates	6%	4%	4%

The relative weight of activities within the Group remained stable compared to the previous financial year.

A.4. IFRS consolidated financial statements of Faiveley Transport

4.1. PUBLISHED FINANCIAL STATEMENTS

- **Income statement**

	2010/2011	2009/2010	2008/2009
Sales	**913,872**	**875,948**	**852,024**
EBITDA*	142,169	134,223	129,151
% of sales	*15.6%*	*15.3%*	*15.2%*
Profit from recurring operations	129,782	118,851	114,498
% of sales	*14.2%*	*13.6%*	*13.4%*
Operating profit	**126,666**	**118,247**	**113,787**
% of sales	*13.9%*	*13.5%*	*13.4%*
Net finance cost	(13,245)	(15,538)	(14,445)
Share of profit from associates	–	–	–
Income tax	(32,096)	(27,852)	(28,095)
Net profit from continuing operations	**81,145**	**74,857**	**71,247**
% of sales	*8.9%*	*8.5%*	*8.4%*
Net profit from discontinued operations	–	–	–
Net profit	81,145	74,857	71,247
Minority interests	(5,462)	(3,738)	(19,764)
GROUP SHARE OF NET PROFIT *% of sales*	75,683 *8.3%*	71,119 *8.1%*	51,483 *6.0%*
Number of shares	13,941,934	14,120,822	12,667,172
Net earnings per share	5.43	5.04	4.06

(*) Operating profit + amortisation and depreciation.

- **Operating profit**

Operating profit totalled €129.8 million, which is 14.2% of sales. This is a continuing improvement compared to the previous year (up 9.2%).

After deducting restructuring costs and adding net proceeds from the disposal of non-current assets, operating profit grew by 7.1% compared to 2009/2010, to €126.7 million. The operating margin was thus 13.9%.

The various items making up operating profit may be analysed as follows:

	2010/2011	2009/2010	2008/2009
Sales	913,872	875,948	852,024
Gross profit	261,468	247,031	242,291
Administrative costs	(65,564)	(68,758)	(73,938)
Sales and marketing costs	(50,236)	(46,107)	(38,451)
R&D costs	(11,638)	(11,425)	(12,864)
Other operating income and expenses from recurring operations	(4,248)	(1,890)	(2,540)
Profit from recurring operations	**129,782**	**118,851**	**114,498**
Non-recurring income and expenses	(3,116)	(604)	(711)
OPERATING PROFIT	**126,666**	**118,247**	**113,787**

– Gross profit

The Group's gross profit amounted to €261.5 million for the year to 31 March 2011 (28.6% of sales), compared to €247 million (28.2% of sales) for the year to 31 March 2010 and €242.3 million (28.4% of sales) for the year to 31 March 2009.

The 0.4 percentage point increase in the gross profit margin during the year was primarily due to:

- a favourable mix of projects and activities;
- improved productivity and purchasing.

– Administrative costs

Administrative costs amounted to €65.6 million during 2010/2011, compared to €68.8 million during the previous financial year and €73.9 million during 2008/2009, which was a decline of 4.7% during the year, compared to a decrease of 7% during the 2009/2010 period. These costs represented 7.2% of sales, compared to 7.8% for the year to 31 March 2010 and 8.7% for the year to 31 March 2009.

The decrease in administrative costs during the year was primarily due to:

- the reclassification of the CVAE (*value-added business tax*) tax as income tax in 2010/2011, for an amount of €1.9 million;
- the cost reduction plans implemented since the 2009/2010 financial year.

– Sales and marketing costs

Sales and marketing costs were €50.2 million during 2010/2011, compared to €46.1 million during the previous financial year and €38.5 million during 2008/2009, which was an increase of 9% over the previous period and 19.9% over the 2009/2010. They represented 5.5% of sales for the year to 31 March 2011, compared to 5.3% for the year to 31 March 2010 and 4.5% for the year to 31 March 2009.

The increase in sales and marketing costs primarily resulted from the growth in the sales force and tendering expenses, within a business environment that remained buoyant during the year. These sales and marketing efforts enabled the Group to increase its order book significantly during the period.

– Research and development costs

Research and Development costs are taken to the balance sheet if they meet the capitalisation criteria set by IAS 38. If not, they are recognised as expenses.

The Group's research and development costs that were recognised as expenses represented €11.6 million during the 2010/2011 financial year (1.3% of sales), compared to €11.4 million (1.3% of sales) for the year to 31 March 2010 and €12.9 million (1.5% of sales) for the year to 31 March 2009.

– Other operating income and expenses

Other operating income and expenses correspond to a net expense of €4.2 million during the period, compared to a net expense of €1.9 million for the year to 31 March 2010 and €2.5 million for the year to 31 March 2009.

The increase in this heading was primarily due to the decline in other operating income. In 2009/10, the Group recognised the compensation paid by Wabtec following the favourable arbitration award of 24 December 2009 (see 6.2 Risk of counterfeit).

– Profit from recurring operations

As a result, profit from recurring operations increased by 9.2% compared to the previous year to €129.8 million, being 14.2% of sales. It had totalled €118.9 million (13.6% of sales) for the year to 31 March 2010 and €114.5 million (13.4% of sales) for the year to 31 March 2009.

During the 2010/2011 financial year, the reclassification of CVAE as income tax had a favourable impact of 0.2 percentage points on the operating margin compared to the previous year.

– Non-recurring operating income and expenses

The majority of non-recurring operating expenses was due to restructuring costs and gains and losses from the disposal of property, plant and equipment and intangible assets.

Restructuring costs amounted to €2.6 million during the period, compared to €0.3 million for the previous year and €0.5 million for the year to 31 March 2009. During the 2010/2011 financial year, these restructuring costs primarily related to the closure of the Madrid production site and the transfer of operations to the Tarragona site.

The loss on disposal of non-current assets was €0.5 million during the period, compared to €0.3 million for the year to 31 March 2010 and €0.2 million for the year to 31 March 2009.

- **Consolidated net profit**

The consolidated net profit was €81.1 million, compared to €74.9 million of the previous financial year, which is an increase of 8.4%.

Net profit was influenced by the following items:

– Net finance cost

The net finance cost amounted to €13.4 million for the year to 31 March 2011, compared to €15.5 million for the year to 31 March 2010. This charge is analysed as follows:

- interest relating to borrowings taken out as part of the December 2008 reorganisation of the Group's bank debt for an amount of €10 million;
- the slightly unfavourable realised and unrealised foreign exchange loss on financial transactions, after deducting the value of derivative instruments, for an amount €0.3 million;
- other financial charges and income, comprising sundry bank charges, lease interest, interest on overdraft and other borrowings taken out by the subsidiaries, the interest expense on pension commitments, offset by other financial income was a net expense of €3.1 million.

Interest charges relating to borrowings decreased by €1.8 million during the financial year, due to the part repayment of the principal of the loan taken out in 2008/2009.

– Income tax

The income tax charge was €32.1 million for the year to 31 March 2011, which was a 15.2% increase compared to the previous financial year (€27.9 million for the year to 31 March 2010, down 0.9% from 2008/2009).

The €4.2 million increase in income tax during the year was primarily due to the increase in pre-tax profit, which grew from €102.7 million for the year to 31 March 2010 to €113.2 million for the year to 31 March 2011. On a constant income tax rate, the additional tax charge for the year would have been €2.8 million. In addition to the increase related to the growth in profits, the Group elected to reclassify the CVAE tax of €1.9 million as income tax. In the previous year, this tax was accounted for in operating profit.

The effective tax rate was 28.3%, compared to 27.1% for the year to 31 March 2010 and 28.3% for the year to 31 March 2009.

The current income tax rate was 27.5%, compared to 25.9% for the year to 31 March 2010 and 29.9% for the year to 31 March 2009.

– Net profit from discontinued operations

None.

– Minority interests

The minority interest's breakdown is as follows:

(€millions)	2010/2011	2009/2010	2008/2009
35.86% held by Sagard in Faiveley Transport	–	–	17.1[(1)]
2.40% held by Management in Faiveley Transport	–	–	1.2[(1)]
Other[(2)]	5.5	3.7	1.5
MINORITY INTERESTS	**5.5**	**3.7**	**19.8**

(1) Share of profit attributable to Sagard and the Management at 23 December 2008, the date their shares were purchased.

(2) At 31 March 2011, "other" primarily related to the share attributable to minority interests in Nowe GmbH (75% owned), Shanghai Faiveley Railway Technology (51% owned), Amsted Rail-Faiveley LLC (67.5% owned) and Urs Dolder AG (80% owned).

The significant increase in minority interests in 2010/2011 was primarily due to the strong operating performance of Shanghai Faiveley Railway Technology and Nowe and the creation of the joint-venture Amsted-Rail Faiveley LLC.

- **Group share of net profit**

After taking account of the above items, the Group reported a consolidated net profit of €75.7 million, compared to €71.1 million in the previous year and €51.5 million in 2008/2009.

Net earnings per share was €5.43, compared to €5.04 for the year to 31 March 2010, an increase of 7.8%. Net earnings per share was calculated after deducting the treasury shares held by Faiveley Transport, of which there were 462,777 for the year to 31 March 2011, compared to 283,889 shares for the year to 31 March 2010 and 331,195 shares for the year to 31 March 2009.

- **Summarised balance sheet**

	2010/2011	2009/2010	2008/2009 Restated *	2008/2009
Acquisition goodwill	562,028	540,013	536,988	535,871
Net non-current assets	113,381	123,589	125,123	125,551
Deferred tax assets	29,848	31,591	28,909	28,845
Current assets	433,546	399,555	365,291	365,562
Cash and cash equivalents	198,382	196,705	164,077	164,077
Assets held for disposal	–	–	–	–
TOTAL ASSETS	**1,337,185**	**1,291,453**	**1,220,388**	**1,219,906**
Equity	453,275	376,666	296,921	296,921
Provisions	107,667	109,753	105,210	105,305
Deferred tax liabilities	17,508	23,466	20,125	19,745
Financial debt	393,752	442,688	479,403	479,403
Current liabilities	364,983	338,880	318,729	318,532
Liabilities held for disposal	–	–	–	–
TOTAL EQUITY AND LIABILITIES	**1,337,185**	**1,291,453**	**1,220,388**	**1,219,906**

(*) Restated following the adjustment of Ellcon National's acquisition goodwill during the year of allocation.

– Acquisition goodwill

Acquisition goodwill increased by €22 million, from €540 million at 31 March 2010 to €562 million at 31 March 2011.

This growth was primarily due to:
- the recognition of a USD 6.3 million (€4.6 million) increase in the acquisition goodwill following the incorporation of the Amsted-Rail Faiveley LLC joint-venture;
- the translation adjustment of the Ellcon National and Amsted Rail-Faiveley LLC goodwill (assessed in USD), which had a €1.7 million negative impact;
- the restatement of the acquisition goodwill of Faiveley Transport Lekov for a negative €0.6 million, following the acquisition of minority shareholdings in January 2011;
- the recognition of a €2.3 million goodwill following the acquisition of 80% of the Swiss company Urs Dolder AG in February 2011;
- the recognition of an additional goodwill of €3 million, following the signing of an addendum to the put options held by minority shareholders in Nowe GmbH;
- the reclassification of the Sab Wabco brand to goodwill, for an amount of €14.4 million (net of the deferred tax liability recognised when the Sab Wabco brand was first accounted for in the consolidated financial statements at 31 March 2005).

Acquisition goodwill had increased by €4.1 million, from €535.9 million at 31 March 2009 (published data) to €540 million at 31 March 2010.

This growth was primarily due to:
- the adjustment of Ellcon National's acquisition goodwill during the allocation period. The value of this acquisition goodwill increased from €24.4 million at 31 March 2009 to €25.2 million at 1 April 2009, an increase of €0.8 million.
- the translation adjustment of the Ellcon National goodwill (assessed in USD on the acquisition date) had a €0.3 million negative impact;

- the adjustment of the acquisition goodwill during its allocation period, resulting from the acquisition of minority interests in Faiveley Transport generated an increase of €0.2 million;
- the recognition of a €1 million increase in the acquisition goodwill of Faiveley Transport Lekov, following the appraisal of the put option that minority shareholders hold in respect of their shares;
- the recognition of a €2.8 million increase in the acquisition goodwill of Nowe following the appraisal of the put option that minority shareholders hold in respect of their shares;
- the recognition, as a reduction of the acquisition goodwill of Sab Wabco, of tax savings achieved during the financial year, relating to the subsidiaries originating from Sab Wabco's former group structure, which had tax losses carried forward at the time of their acquisition by Faiveley Transport Group, for a total of €0.4 million.

– Net non-current assets

Net non-current assets decreased from €123.6 million at 31 March 2010 to €133.4 million at 31 March 2011, an increase of €9.8 million.

Net non-current assets had changed from €125.6 million at 31 March 2009 to €123.6 million at 31 March 2010, a decrease of €2 million.

The constituents of non-current assets are detailed in chapter 3.3.6, Notes E.2, E.3, E.4 and E.5, respectively, to the consolidated financial statements.

– Working capital requirements (WCR):

At 31 March 2011, the net WCR(1) was €55.9 million, an increase of €2.6 million compared to 31 March 2010. This change was primarily due to an increase in projects in progress (up €12 million) due to the launch of the engineering phase of numerous projects, offset by an increase in customer advances (up €12.4 million).

At 31 March 2010, the net WCR was €53.3 million, compared to €43.8 million at 31 March 2009. After restatement for the disposal of receivables deconsolidated, movements in losses on completion and the impact of IAS 32/39 on projects, the WCR increased by €8.1 million.

– Cash and cash equivalents

Analysis of cash and cash equivalents at 31 March 2011:

Short-term investments	€44,925
Factoring	€45,682
Banks (available cash)	€107,564
Cash	€211
TOTAL CASH AND CASH EQUIVALENTS	**€198,382**

At 31 March 2011, the amount of factoring was €45.7 million, compared to €59.2 million at 31 March 2010. No funds were drawn from the factoring facility at 31 March 2011. The Group completed the deconsolidation process by disposing of receivables on one-off bases totalling €50.2 million, compared to €38.6 million at 31 March 2010.

– Equity

Equity amounted to €453.3 million at 31 March 2011, compared to €376.7 million at 31 March 2010, which is an increase of €76.6 million.

This movement is primarily due to the impact of:
- net profit for the year: €81.1 million;
- the payment of a cash dividend to shareholders of the parent company and other minority shareholders: (€17 million)
- the movement in translation difference: €10 million;
- the increase in minority interests following the creation of the Amsted Rail-Faiveley LLC joint-venture (32.5%) for €12.9 million;
- the exercise of stocks options during the financial year, for €3.7 million;
- the buyback of treasury shares for (€17.9 million), within the framework of the share buyback programme approved by the Combined General Meeting of 13 September 2010;
- the movement in minority interests, for €0.6 million, following the discounting of the put option held by minority interests in Nowe GmbH;
- the recognition under equity of the put option held by minority interests in Urs Dolder AG, for (€1.1 million).

Equity amounted to €376.7 million at 31 March 2010, compared to €296.9 million at 31 March 2009, which is an increase of €79.7 million.

This movement is primarily due to the impact of:
- net profit for the year: €74.9 million;
- the payment of a cash dividend to shareholders of the parent company and other minority shareholders: (€14.1 million);
- the movement in translation difference: €21.9 million;
- the movement in minority interests, for (€2.3 million), following the appraisal of the put option held by minority interests in Faiveley Transport Lekov and Nowe GmbH.

– Provisions

At 31 March 2011, provisions totalled €107.7 million, compared to €109.8 million at 31 March 2010, a net decrease of €2.1 million.

The various items comprising this movement may be analysed as follows:
- €0.2 million decrease in provisions for completed contracts;
- €2.3 million decrease in provisions for pension commitments;
- €0.7 million increase in provisions for restructuring;
- €0.3 million decrease in other provisions for liabilities and charges.

At 31 March 2010, provisions totalled €109.8 million, compared to €105.3 million at 31 March 2009, a net increase of €4.5 million.

The various items comprising this movement may be analysed as follows:
- €8.7 million increase in provisions for completed contracts;
- €1.8 million decrease in provisions for pension commitments;
- €0.7 million decrease in provisions for restructuring;
- €1.7 million decrease in other provisions for liabilities and charges.

– Net financial debt

Net financial debt, as defined in chapter 3.3.6, Note E.15.4 to the consolidated financial statements, decreased by €55.7 million, from €255.5 million at 31 March 2010 to €169.8 million at 31 March 2011.

This change was due to:
- a €52.8 million decrease in financial debt;
- a €1.7 million increase in cash and cash equivalents;
- a €1.2 million increase in financial receivables.

(1) Calculated based on net balance sheet values, on a constant group structure and foreign exchange basis and after deducting losses on completion up to the value of projects in progress. The WCR used in the cash flow statement presented in Note E.12 to the consolidated financial statements was calculated excluding changes in group structure, movements in foreign exchange and without deducting provisions for losses on completion deducted from the asset.

As a result, the Group's financial structure changed during the year:

- the net debt to EBITDA ratio underlying the level of bank margin fell from 1.73 at 31 March 2010 to 1.15 at 31 March 2011,
- the net debt to equity ratio (gearing ratio) was 37.5% at 31 March 2011, compared to 59.9% at 31 March 2010.

From a financial point of view, Group equity includes treasury shares, which are held for transfer as part of the share purchase or subscription option plans. The exercise of share options (261,541 at the end of March 2011) would result in an improvement of Group cash and cash equivalents by €11.9 million. The value of treasury shares not allocated amounted to €11.6 million at the 31 March 2011 share price (including treasury shares held as part of the liquidity contract). This €11.6 million amount includes part of the performance-based shares allocated in December 2010, being 34,153 shares (49%). Based on an estimate made by a specialised firm, a percentage of 51% was determined, corresponding to the number of shares that should eventually be exercised. This percentage was determinated by taking into account the performance criteria and the likelihood that managers will be employed by the Company on the date of the calculation of these performance criteria.

- **Cash flow statement**

	2010/2011	2009/2010	2008/2009
Net profit	81,145	74,857	71,247
+ Movements in amortisation, depreciation and provision charges and others	16,616	24,457	6,537
Self-financing capacity	**97,761**	**99,314**	**77,784**
+ Changes in WCR	(4,106)	(9,160)	28,757
Net cash from operating activities	**93,655**	**90,154**	**106,541**
Purchase of PPE and intangible assets	(17,749)	(16,838)	(15,863)
Movement in other financial assets	(1,184)	(221)	218
Net cash from (used in) acquisitions/ sales of subsidiaries and minority interests	(5,001)	–	(457,607)
Net cash used in investing activities	**(23,934)**	**(17,059)**	**(473,252)**
Proceeds from issue of share capital	–	–	1,875
Sale (purchase) of treasury shares	(14,235)	1,833	(43)
Change in share premium	–	–	85,244
Other equity movements	5,527	(2,230)	(1,257)
Cash dividends paid	(17,024)	(14,069)	(4,859)
Movement in loans	(53,879)	(29,065)	345,946
Net cash from (used in) financing activities	**(79,611)**	**(43,531)**	**426,906**
Net foreign exchange difference	13,358	17,033	(30,961)
Impact of increase/(decrease) in value of cash equivalents	(2,483)	(51)	4,256
Cash and cash equivalents at start of period	191,726	145,180	111,690
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**192,711**	**191,726**	**145,180**

– Self-financing capacity

At 31 March 2011, the self-financing capacity was €97.7 million, a moderate decline of 1.5% compared to the previous year (€99.3 million), which had increased by 27.6% compared to the year-end at 31 March 2009.

This change was primarily due to the growth in net profit for 2010/2011, which was €81.1 million, compared to €74.8 million in the previous year, but was offset by the €7.8 million unfavourable movement in provisions for liabilities and charges and deferred taxation. Amortisation and depreciation charges were similar in the two financial years.

– Net cash from operating activities

Excluding changes in transfers of deconsolidated receivables and the impact of IAS 32/39, WCR increased by €4.1 million. This was primarily due to the volume effect resulting from the sales growth.

– Net cash used in investing activities

Investments in property, plant and equipment and intangible assets increased moderately by €0.9 million during the year and were stable compared to the previous two years. The same was true of financial investments, which increased by €1 million during the 2010/2011 period.

In addition to these investments, Faiveley Transport Group continued to grow by way of acquisitions and purchased 80% of the share capital of Urs Dolder AG for €2.6 million. Furthermore, the Group acquired the 25% minority interests in Faiveley Transport Lekov for €2.4 million.

– Net cash from (used in) financing activities

The Faiveley Transport Group distributed a cash dividend of €17 million during the year, compared to €14.1 million in the previous year. The Group also continued to implement its share buyback programme for €17.9 million to service its various stock option and free share plans. These cash outflows were partly offset by the exercise of stock options during the year, for €3.7 million.

The change in borrowings was primarily due to the repayment of the debt taken out in December 2008, for an amount of €50.5 million.

4.2. RESEARCH AND DEVELOPMENT

The majority of the research and development conducted within the Group falls within the framework of the engineering included in contracts and is therefore primarily sold to customers, with Faiveley Transport retaining the intellectual property rights.

In application of IFRS standards, €3.1 million in development costs was capitalised at 31 March 2011, compared to €3.8 million at 31 March 2010, and €2 million at 31 March 2009. The amortisation charge was €2 million at 31 March 2011, compared to €1.9 million at 31 March 2010 and €1.8 million at 31 March 2009.

At 31 March 2011, the total development costs recognised in balance sheet assets were €8.6 million. Development costs taken to the balance sheet are amortised over 3 years.

Public operating grants are recognised in the income statement of the parent company financial statements under "operating subsidies". Under IFRS, if certain costs incurred can be capitalised pursuant to IAS 38, operating subsidies are offset against the "investment grant" item of equity in accordance with IAS 20. Subsequently, the "investment grant" item is taken to the income statement, also over a period of three years, in line with the amortisation charge applied to development costs previously capitalised.

4.3. BUSINESS DEVELOPMENTS SINCE THE YEAR-END

4.3.1. Significant events after the year-end

On 1 April 2011, Thierry Barel was appointed as Chairman of the Management Board and Chief Executive Officer by the Supervisory Board, to replace Robert Joyeux who resigned from his duties.

On the same day, the Supervisory Board also appointed Guillaume Bouhours, Group Chief Financial Officer, as a member of the Management Board.

In a ruling dated 13 April 2011, the District Court of New York acknowledged that Wabtec was responsible to subsidiaries of Faiveley Transport for acts of unfair competition, misappropriation of confidential and secret information and unjust enrichment. The federal court will examine the damage alleged by Faiveley Transport in future hearings, which are expected in the month of June 2011.

The Group has decided to move from the premises housing its headquarters to a building in Gennevilliers, which benefits from HQE (High Environmental Quality). The move took place in the month of July 2011.

4.3.2. 2011/2012 outlook

- **Order book at 31 March 2011**

The order book at 31 March 2011 totalled €1,453 million, compared to €1,302 million at 31 March 2010, a year-on-year increase of 11.6% (up 11.3% on a like-for-like basis).

- **Enterprise Resource Planning System (ERP)**

The basic configuration has been implemented at two pilot sites (Leipzig and Gennevilliers). Following a stabilisation phase, it should be rolled out more extensively throughout the Group, starting in 2012/2013.

- **Forecasts**

Business activity should remain strong during the 2011/2012 financial year. In Europe, major calls for tenders are expected over the coming quarters, in particular in Germany (ICEx programme) and the UK (Thameslink, IEP). The US market should benefit from a strong recovery in investment in new freight carriages. In Asia, the Indian market should continue to expand, in particular with the extension of the Delhi underground and the launch of similar projects in other cities. In China, the recent change of ministerial team may cause orders to be postponed in the short term, before a recovery with different priorities in terms of platforms, speed levels and technologies.

The significant number of contracts awarded on new train platforms and the reduction in optional orders resulted in greater order book depth. The engineering, testing and certification phase of these new programmes takes eighteen months on average.

Against this backdrop, the Group forecasts moderate sales growth on a like-for-like basis during the 2011/2012 financial year, to be followed by more rapid growth in subsequent years.

4.4. CASH AND CAPITAL

4.4.1. Capital

A/ Share capital of Faiveley Transport

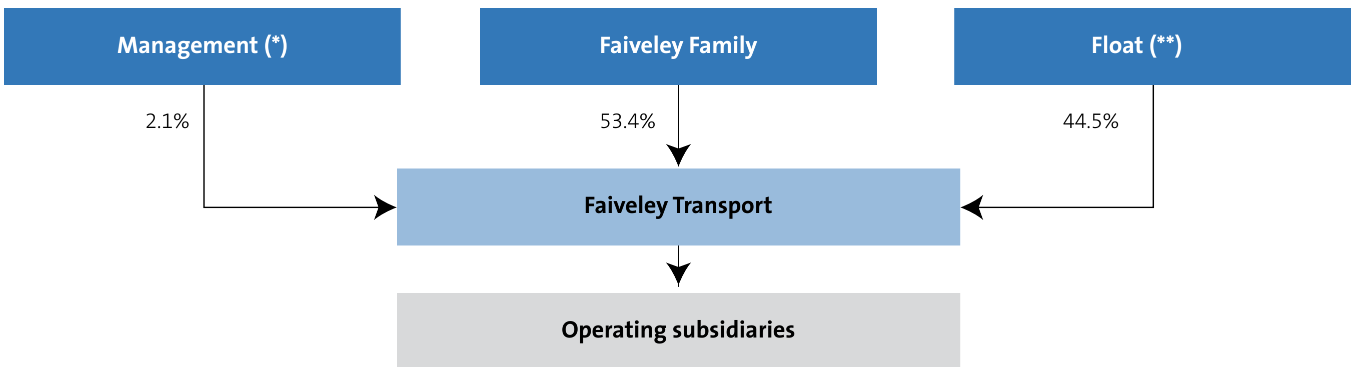
See chapter C. Information on the share capital.

B/ Shareholding structure of Faiveley Transport

Reminder of transactions of 23 December 2008:

The Extraordinary General Meeting of 23 December 2008 approved the transactions, as presented in the document E registered with the Autorité des Marchés Financiers under number E.08-115 on 25 November 2008. The implementation of these agreements resulted in particular in the contribution and merger transactions carried out between 23 December 2008 and 31 March 2009. Lastly, in February 2009, Sagard sold their entire equity holding in Faiveley S.A. on the market. This investment had been held following the contribution transactions approved by the General Meeting of 23 December 2008.

At the Annual General Meeting of 22 September 2009, Faiveley S.A. was renamed Faiveley Transport. Following these transactions, the Group's shareholding is now structured as follows:



(*) including employee shareholding and Robert Joyeux
(**) of which treasury shares 3.2%

4.4.2. Financing conditions

A/ Long-term loans

- **Bank financing**

Following the reorganisation of its shareholding structure and the overall refinancing of the existing bank debt, on 23 December 2008, the Faiveley Transport Group finalised a credit agreement with a pool of nine banks in relation to a term loan of €407 million and USD 50 million, drawn down when the transaction was signed. A revolving credit line of €49 million was also established to fund the Group's general financing requirements. At 31 March 2011, in accordance with the repayment schedule, the outstanding portion of these loans was €339 million and USD 40 million. No drawdowns had been made on the revolving credit facility.

This debt is subject to a number of covenants, of which the two most important relate to the Group's profitability and financial structure:

- "Leverage Ratio", calculated on a rolling 12 month period ending at each half-year close, Consolidated Net Debt to Consolidated EBITDA (as defined in the loan documentation).

  At each of the following dates, the Group must maintain this ratio below or equal to the following levels:

Dates	Leverage ratio
31 March 2011	2.50
30 September 2011	2.50
31 March 2012	2.00
30 September 2012	2.00
31 March 2013	2.00
30 September 2013	2.00

  At 31 March 2011, the ratio was 1.15.

- The "gearing ratio", calculated at each half-year end, Consolidated Net Debt to Consolidated Equity.

  At each of the following dates, the Group must maintain this ratio below or equal to the following levels:

Dates	Gearing ratio
31 March 2011	1.50
30 September 2011	1.50
31 March 2012	1.50
30 September 2012	1.50
31 March 2013	1.50
30 September 2013	1.50

  At 31 March 2011, the ratio was 0.35.

The new bank debt bears interest indexed on Euribor and USD Libor, with a margin that varies depending on the leverage ratio.

The average rate applied to net debt during the 1 April 2010 - 31 March 2011 period was 2.43% and 2.93% on the Euro and US dollar debt, respectively. These average rates take account of the hedging in place.

In line with financing agreements, the Group put a hedging strategy into place based on swaps and options. The hedging level varies between 71% and 100% of the debt drawn in Euro, depending on Euro interest rates over the 2011/2012 period. The US-denominated debt is fully hedged.

The cost of the bank debt is estimated at 2.64% over 2011/2012, including hedges and margins for the Euro debt, and 2.81% for the USD–denominated debt.

Interest rate hedges in place are detailed in Note E.16.5.b to the consolidated financial statements.

B/ Analysis of Faiveley Transport Group net debt

At 31 March 2010, Group debt was €225.5 million, comprising financial debt taken out from banks totalling €430.7 million, offset by financial receivables of €8.5 million and cash and cash equivalents of €196.7 million (including short-term investments of €40.9 million and cash of €155.8 million).

At 31 March 2011, Group debt was €169.8 million, comprising financial debt taken out from banks totalling €377.9 million, offset by financial receivables of €9.7 million and cash and cash equivalents of €198.4 million (including short-term investments of €44.9 million and cash of €153.5 million).

The cash of €153.5 million included €45.7 million of uncalled factoring and €107.8 million available cash. Following the financial crisis and its impact on the credit market, the Group decided to maintain some financial flexibility to ensure internal organic growth and/or finance acquisitions.

It should be noted that Faiveley Transport holds 462,777 treasury shares that are designated, in their majority, to be purchased by managers within the framework of the share purchase or subscription option plan or who benefit from the performance-based stock option plan. These shares are currently deducted from equity. The exercise of these stock options (261,541 at the end of March 2011) would result in a cash inflow for the Group of €11.9 million. Unallocated treasury shares were valued at €11.6 million at the stock market price of 31 March 2011 (including treasury shares held as part of the liquidity contract). The amount of €11.6 million includes a portion of 34,153 performance shares (49%) that were granted in December 2010. An estimate made by a specialist determined that 51% of the shares should eventually be exercised. This percentage was estimated based on the expected final performance criteria and on the presence of managers in the Company at the date of calculation of these performance criteria.

4.4.3. Restrictions on the use of capital

The debt documentation established in December 2008 includes limitations in terms of existing or new bilateral debt and similar financing.

The ceilings were set as follows:
- bilateral debt: €40 million;
- lease finance: €15 million;
- disposal of receivables: €100 million;
- various financing: €10 million;
- overdraft pursuant to a cash pooling agreement: €10 million;
- seller credit authorised up to 25% of the selling price.

In addition, off-balance sheet commitments (bank guarantees on long-term contracts) may not exceed 22% of the Group's order book in each financial year.

Subsidiaries' borrowings (excluding joint ventures) must not exceed 20% of the Group's gross debt.

4.4.4. Financing of operations and expected sources

Cash flow generation and available finance currently cover the Group's recurring industrial investment requirements.

A €49 million revolving credit facility can be used for the Group's general funding needs. It was unused at 31 March 2011.

Euro-denominated amortisable repayments are funded by cash flow generated outside the US and the US dollar repayments by cash flow generated by Ellcon National, with the bullet portion (fifth year, or end 2013) to be refinanced when required.

The conditions for the early repayment of Group debt notably include the loss of the majority control of voting rights by the Faiveley Family and failure to comply with financial ratios.

A.5. Environmental information

The Group's production activities, by their nature, generate little waste in the environment. The optimisation of the protection of the environment is one of the priorities for the Group whether in France or in its foreign subsidiaries. To this end, the Group takes initiatives to integrate environmental concerns into the management of its operations and facilities, in order to:
- comply with the legal and regulatory requirements that apply to all sites;
- find solutions that limit the impact of operations on the environment, prevent pollution and ensure continuous improvement in economic competitiveness;
- reduce non-renewable energy consumption and improve the quality of waste gases as well as improving waste sorting;
- contribute to the business and social aspects of sustainable development.

The procedures aimed at correctly applying environmental, health and safety regulatory provisions are decentralised and controlled by each of the main industrial sites. Environmental, health and safety costs are budgeted at site or unit level and recognised in the consolidated income statement. In all other subsidiaries, aspects liable to have an impact on the environment are integrated in the decision making and implementation structures of the management system. The year 2010/2011 saw the continuing implementation of procedures and methods aimed at providing better management of legal provisions, objectives and rules in terms of environmental management.

The sites continued to take steps with a view to achieving ISO 14001 certification. This process is essential to meet customers' expectations and improve the public authorities and shareholders' trust in the Group.

At 31 March 2011, about ten entities, including the Group's main industrial sites, had been awarded ISO 14001 certification in relation to their environmental management; Faiveley Transport Iberica, which is a major production site in Europe, should be certified ISO 14001 in the summer of 2011. This certification process has been initiated at other sites that have not yet been certified. Each site now has an in-house manager responsible for coordinating Environmental, Health and Safety aspects.

In addition, the Group decided to move from the premises housing its headquarters to a building in Gennevilliers, which has already been certified for HQE (High Environmental Quality). The move took place in the month of July 2011.

5.1. MEASURES TAKEN TO ENSURE COMPLIANCE WITH LEGISLATIVE REQUIREMENTS

The Group seeks to associate all French and foreign sites in a regular and genuine gathering of environmental information. This collective commitment led to the setting up of a general supervision programme at the sites.

The Company's process is decentralised: each unit is responsible for its environmental self-assessment, for defining an action plan and associated objectives and for reporting its own environmental data.

As part of this monitoring, possible irregularities and potential sources of nuisance or energy waste are specifically targeted for observation: an example of this is the battle against noise and the particular measures taken to remedy this issue in all the Group's industrial sites.

The Quality Safety Environment staff at production sites have a duty to follow the applicable legislation and to analyse action plans implemented in order to conform. The effects of the Regulation Reach N°1907/2006 of 18 December 2006, which came into force on 1 June 2007 for the use of chemical substances by the Group that were included in the scope of application of this text, were taken into account in their entirety. The Group is committed to providing a positive contribution to the sustainable development of the European rail industry. The Company has voiced its intent to maintain and expand its operations in accordance with the founding principles of sustainable development.

The Saint-Pierre-des-Corps site has doubled its capacity for water-soluble paint over the year and this one can now paint 160 panels per week.

The Group is fully aware of the requirements and has dedicated the necessary human and financial resources to take full responsability and meet its targets.

Relative to the implementation of Directive 2002/95/CE of the restrictions on the use of dangerous substances and the Directive 2002/96/CE in respect of waste electronic and electrical equipment (WEEE), it appears that the Group's operations are not precisely covered by the categories stated in the various EU and national texts and are therefore not required to meet a deadline to conform.

Concerning the use of metals such as cadmium and lead, the various European production sites have adopted an approach to progressively eliminate these metals from products manufactured. The requirement to limit the use of these metals remains a medium-term objective, to the extent that Article 5 of the Directive 2002/95/CE expressly provides an exemption where substitution is technically or scientifically impossible or exempt from total safety compared to the final solution.

Despite the fact that the constraints imposed by the texts target more specifically the mass market electronic and electrical products, specific attention is still paid to these issues.

Lastly, the Group seeks to make all suppliers aware by auditing their sustainable development policies.

5.2. SPECIFIC MEASURES TO LIMIT DAMAGE TO THE BIOLOGICAL BALANCE

In addition to the exercise of these controls, various new measures were introduced during the year just ended:

- doubling the water-soluble paint capacity for door panels;
- installation of heat exchangers and heat economisers;
- use of bio-degradable oils and water-based paint;
- waste containers;
- reduction of packaging waste (wood, plastic, cardboard) and all associated treatment costs;
- particle filters to reduce air emissions;
- retention basins and waste water disposal systems;
- energy assessment of the Group's industrial sites;
- central vacuum system with filters for sanding booths.

A significant reduction in environmental impact was also noted following the investment in cleaning machines that resulted in reduced water and solvent consumption and waste, at the sites dedicated to the "Customer Services" activity and also due to substantial investment at the Saint-Pierre-des-Corps site to double the production capacity in water-soluble paint and to comply with regulations on the discharge of Organically Volatile Compounds (OVCs). The new processes and systems can thus avoid any discharge into the atmosphere of polluting compounds.

As part of its commitments to its customers, Faiveley Transport now submits each major project to an environmental analysis at inception (% recyclability, % recovery, etc.).

The Group took full note of the environment public liability Directive 2004/35/CE, adopted on 21 April 2004, on environmental responsibility in respect of the prevention and restoration of environmental damage.

By this text, which was transferred into French law by the law n°2008-757 of 1 August 2008, a Group operation that damages fauna or flora is required to reverse the damage done or to bear the associated costs (at the discretion of the public authorities). Faced with this new regulation, the Group increased its attention to the protection of the environment and implemented the various options to cover this new area of liability with its insurers.

5.3. REDUCED ENERGY INTENSITY AND GREENHOUSE GAS EMISSIONS AND OTHER ENVIRONMENTAL IMPACTS

For a number of years, the Group has sought to collect data on the energy consumption within its industrial processes. This information enables the Group to be in keeping with greenhouse gas emission reduction objectives, established at an international level, in particular within the framework of the European Union's commitments.

- **Gas consumption at the main industrial sites during the financial year ending 31 March 2011 (in KWh):**

Entity	2009-2010	2010-2011
Shanghai Faiveley Railway Technology	–	
Shijiazhuang Jiaxiang	104,579	143,807
Faiveley Transport Leipzig	2,081,485	2,470,000
Faiveley Transport Witten	–	–
Nowe	39,797	23,133
Faiveley Transport India	–	–
Faiveley Transport Lekov	2,572,522	2,746,909
Faiveley Transport Italia	226,231	223,105
Faiveley Transport Iberica	–	24,725
Faiveley Transport Amiens	2,300,919	2,267,896
Faiveley Transport Gennevilliers	4,784,537	5,248,977
Faiveley Transport Tours and Espas	7,973,268	9,171,830
Faiveley Transport NSF	155,315	613,988

The French (Amiens) and Italian sites have optimised their gas costs by using updated models of heaters. At other Group sites, a significant increase in gas costs was noted. An additional effort will be launched next year in an attempt to reduce gas consumption at the Group's industrial sites.

- **Electricity consumption at the main industrial sites during the financial year ending 31 March 2011 (in KWh):**

Entity	2009-2010	2010-2011
Shanghai Faiveley Railway Technology	3,414,368	3,509,000
Shijiazhuang Jiaxiang	540,800	726,760
Faiveley Transport Leipzig	1,553,703	1,550,500
Faiveley Transport Witten	3,612,837	3,621,034
Nowe	23,350	30,581
Faiveley Transport India	984,337	1,149,551
Faiveley Transport Lekov	1,338,943	1,387,636
Faiveley Transport Italia	1,687,035	1,840,960
Faiveley Transport Iberica	1,150,576	1,817,805
Faiveley Transport Amiens	2,044,456	2,284,168
Faiveley Transport Gennevilliers	2,680,079	2,382,333
Faiveley Transport Tours and Espas	4,889,870	4,886,504
Faiveley Transport NSF	206,754	154,559
Ellcon National Inc	–	5,470,000
Faiveley Transport do Brazil	–	311,820
Faiveley Transport Nordic	–	2,061,000

The general trend noted within the major production units is the stability of electricity consumption, despite a long and cold winter in Europe. A significant decrease in consumption was however reported in Faiveley Transport NSF (25%). European sites have improved their lighting by installing energy saving light bulbs and by upgrading their electric heating systems.

- **Water consumption at the main industrial sites during the financial year ending 31 March 2011 (in m³):**

Entity	2009-2010	2010-2011
Shanghai Faiveley Railway Technology	34,282	35,200
Shijiazhuang Jiaxiang	9,031	3,989
Faiveley Transport Leipzig	2,443	2,776
Nowe	74	50
Faiveley Transport India	5,579	4,345
Faiveley Transport Lekov	3,861	4,269
Faiveley Transport Italia	18,445	3,195
Faiveley Transport Iberica	2,788	1,624
Faiveley Transport Amiens	2,214	2,193
Faiveley Transport Gennevilliers	5,062	13,002
Faiveley Transport NSF	5,300	467
Faiveley Transport Tours and Espas	5,868	7,500
Faiveley Transport do Brazil	–	1,468
Ellcon National Inc.	–	2,847
Faiveley Transport Nordic	–	1,639

The general trend noted within the major production units, except for Faiveley Transport Gennevilliers, reflects a reduction in water consumption compared to the previous financial year.

Faiveley Transport Italia replaced its continuous flow fountains with better performing equipment. Leak detection devices and leak-proof safety systems have been widely implemented at the sites.

5.4. EXPENSES INCURRED AS PART OF THE POLICY OF PREVENTING ENVIRONMENTAL RISKS

Expenses incurred by Group subsidiaries to prevent the consequences of their industrial operations to the environment increase steadily.

For instance, the following subsidiaries incurred the following expenses:
- Faiveley Transport Tours: €340 thousand, excluding waste processing costs, with €260 thousand of additional investment for the extension of the spray paint booth at the Saint-Pierre-des-Corps site;
- Faiveley Transport Amiens: €83.6 thousand, in particular for waste processing;
- Faiveley Transport Iberica: €65 thousand;
- Faiveley Transport Italia: €90 thousand expense (research costs, calculation of air emissions and waste water treatment costs)
- Faiveley Transport Lekov: €18 thousand in expenses and €23 thousand for industrial investment in waste water treatment and waste processing;
- Faiveley Transport India: €12.5 thousand industrial investment;
- Faiveley Transport Witten: €82 thousand;
- Faiveley Transport Leipzig: €40 thousand, in particular for the cost of waste water treatment (filtering, oil separation);
- Shanghai Faiveley Railway Technology: €38 thousand for waste water treatment and a carbon filter system for the painting process);
- Shijiazhuang Jiaxiang: €12 thousand;
- Ellcon National Inc: €12 thousand for holding tanks.

A.6. Risk factors

6.1. MARKET RISKS

As part of its business, the Faiveley Transport Group is exposed to various types of market risks, in particular exchange, interest rate, raw material, credit and liquidity risks. A description of these risks is provided below and additional information is disclosed in note E.16 of the notes to the consolidated financial statements.

The Group's management of exchange rate, interest rate and raw material risks seeks to minimise the potentially unfavourable effect of the financial markets on the Group's operating performance.

The Group uses derivative financial instruments to cover its exposure to fluctuations in foreign currency exchange rates. Within the framework of its hedging policy, the Group may use currency swaps, hedges, exchange rate options and structured products.

The Group covers its exposure to interest rate risk by the use of swaps and options.

The Group hedges its raw material exposure through raw material swap contracts and structured products.

The Group does not use derivatives for speculation purposes.

– Exchange risk

The main currencies concerned are the Chinese Yuan, US Dollar, Pound Sterling, Czech Koruna and Swedish Krona.

The management of the exchange risk of commercial contracts, where permitted by regulatory requirements, is centralised by the Group Treasury Department and comprises two parts: the certain and the uncertain risk.

– Exchange risk management relating to tenders in foreign currencies (uncertain risk)

The Faiveley Transport Group is required to submit tenders denominated in foreign currencies. The Group's hedging policy is not to put into place financial instruments to cover during the offer phase, unless when specifically decided by Management. The aim is to manage the exchange risk through normal commercially available means. If necessary, the Group Treasury Department uses mainly exchange options and export insurance contracts.

– Exchange risk management relating to commercial contracts (certain risk)

Commercial contracts in foreign currencies (most often successful tenders) are hedged by the Group Treasury Department from contractual commitment with derivative instruments. Instruments used mainly include forward purchases and sales and exchange swaps. Group Treasury may also use options.

Information concerning derivative financial instruments currently in place to hedge the exposure to exchange risks for future purchases and sales is disclosed in the notes to the consolidated financial statements (note E.16 –Financial instruments and financial risk management).

The Group's policy is to systematically hedge against currencies, except for certain very long-term contracts and certain currencies, which are faced with the technical limitations and prohibitive cost of hedging.

At 31 March 2011, the Group's exposure resulting from all its commercial contracts was as follows:

Amounts in thousands of currency	Trade receivables (a)	Trade payables (b)	Commitments (c)	Net unhedged position (d) = a-b+/-c	Hedging instruments (e)	Net hedged position (f) = d-e
USD	33	–	19,826	19,859	20,011	(152)
GBP	2,344	(609)	31,390	33,125	26,361	6,764
CZK	(92,268)	–	(707,476)	(799,744)	(796,143)	(3,601)
AUD	–	–	5,769	5,769	5,703	66
CHF	547	(434)	2,043	2,156	2,156	–
SEK	(18,082)	–	(113,068)	(131,150)	(131,411)	261
JPY	10,964	–	37,915	48,879	54,108	(5,229)
CNY	34,061	–	68,497	102,558	100,052	2,506
HKD	(18,644)	–	(118,270)	(136,914)	(137,938)	1,023
SGD	–	–	28,767	28,767	28,767	–

The £6.8 million amount relates to the SSL project, for which £28.8 million remains outstanding.

Recurring commercial exposure, excluding the subsidiaries' projects are hedged based on the Treasury and through forward purchase or sale contracts.

Intra-group financing contracts are hedged by Treasury, through exchange swap contracts.

At 31 March 2011, the banking positions and loans in place at a Swedish subsidiary of the Group, whose functional currency is the Swedish Krona, was no longer the subject of a hedging, given its decision to adopt the Euro as functional currency on 1 April 2011.

Impacts on the income statement due to variations in the euro (+/-10%) against major foreign currencies and on items not covered and recorded at 31 March 2011 are presented in the consolidated financial statements (Note E.16.5).

– Interest rate risk

The interest rate risk to which the Group is exposed is mainly due to long-term loans amounting to €377.9 million at 31 March 2011 (see details in the consolidated financial statements, note E.15), of which €366.9 million related to the syndicated debt.

Finance is indexed on variable Euribor and US Libor interest rates. The credit agreement commits the Group to hedge against at least 60% of the principal amount due until December 2012.

To manage its risk, the Treasury Department has implemented a hedging strategy using interest rate swaps, tunnels, caps and options.

The exposure to Euro interest rates is covered for between 71% and 100% of the total debt drawn down based on interest rate fluctuations for the 2011/2012 period. The exposure to US Dollar interest rates is 100% hedged.

The estimated cost of bank debt in 2011/2012 is 2.64%, including hedges and spreads for the debt in Euros, and 2.81% for the debt in US dollars.

At 31 March 2011, outstanding Euro denominated syndicated debt was €339 million, with interest rate coverage for €315 million of this. The amount of the US dollar syndicated debt was $ 40 million, for which the total nominal value is covered.

Given the profile of the syndicated loan amortisation and interest rate hedges, net exposure at 31 March 2011 was as follows:

	Loans outstanding	Hedging instruments		Net exposure	
EURO Debt	**Variable rate**	**Fixed rate**	**Variable rate**	**Fixed rate**	**Variable rate**
Less than 1 year	45,276	45,276	–	–	–
From 1 to 2 years	45,276	45,276	–	–	–
From 2 to 3 years	248,234	82,500	–	–	165,734(1)
Over 3 years	–	10,000	–	10,000	–
TOTAL EURO	**338,786**	**183,052**	**–**	**10,000**	**165,734**

(1) Sensitivity analysis of net exposure (€165.7 million):
If the reference variable rate, "Euribor 3 month" were to increase by 100 basis points, the additional interest charge would be €1.6 million in a full year.

	Loans outstanding	Hedging instruments		Net exposure	
USD Debt	**Variable rate**	**Fixed rate**	**Variable rate**	**Fixed rate**	**Variable rate**
Less than 1 year	4,998	4,998	–	–	–
From 1 to 2 years	4,998	4,998	–	–	–
From 2 to 3 years	29,988	–	–	–	29,988(1)
Over 3 years	–	–	–	–	–
TOTAL USD	**39,984**	**9,996**	**–**	**–**	**29,988**

(1) Sensitivity analysis of net exposure (USD 29.9 million):
If the reference variable rate, "Libor USD 3 month" were to increase by 100 basis points, the additional interest charge would be $ 0.3 million in a full year.

– Raw material risk

The Faiveley Transport Group is exposed to increases in the cost of raw materials such as steel, cast iron, copper, aluminium and rubber, as well as to increases in transportation costs.

The Group has already anticipated these effects, both in the preparation of its tenders and in terms of its purchasing policy:

- Certain contracts relating to projects include price indexation mechanisms that enable the Group to absorb a large part of the increases in raw material costs.
- The vulnerability of raw material purchases is taken into account when developing the purchasing budgets. These price changes are subject to a rigorous control throughout the year by purchasing teams to limit their impact.

However, Faiveley Transport Group's sintered brake activity is exposed to fluctuations in the price of copper.

This information is disclosed in the notes to the consolidated financial statements (Note E.16.5.c).

The electronic component market went through a difficult economic situation in the beginning of 2011 due to events in Japan. The Group has put a specific policy in place to monitor this procurement risk, in consultation with its suppliers and customers.

– Credit risk

The Group enters into commercial relationships with third parties whose financial position is known to be healthy. The Group's policy is to verify the financial health of those customers wishing to obtain differed payment.

In the case of derivative instruments and cash transactions, counterparties are limited to high-quality financial institutions.

The Group also practices debt factoring and receivables sales. Details of this are provided in the Notes to the consolidated financial statements (Notes E.9 Current receivables and E.16.6 Credit risk).

– Liquidity risk

The Company carried out a specific review of its liquidity risk and considers that it is in a position to respect the future repayments.

The Group's Finance Department monitors all of the Group's liquidity in order to honour its financial commitments by maintaining a level of cash, cash equivalents and sufficient financing facilities.

On 23 December 2008, Faiveley Transport subscribed to a credit agreement with a pool of nine banks in relation to a term loan of €407 million and USD 50 million, which enabled it to reorganise its shareholding structure and refinance its existing bank debt. At 31 March 2011, in accordance with the credit agreement schedule, €339 million and USD40 million were outstanding.

A €49 million revolving credit was also subscribed in 2008 to fund the Group's general financing needs; it had not been drawn at 31 March 2011.

This debt was subject to a number of financial ratios. At 31 March 2011, the Group complied with all ratios required by the credit agreement. The details of these covenants are commented in the notes to the consolidated financial statements (note E.15 – Loans and borrowings).

Note E.16.7 to the consolidated financial statements provides additional information of the cash and cash equivalents position at 31 March 2011.

The Group had the following cash and cash equivalents at 31 March 2011:

	31 March 2011
Available credit lines (a)	83,564
Parent company's cash (b)	37,211
Subsidiaries' cash and cash equivalents (c)	160,271
AVAILABLE CASH AND CASH EQUIVALENTS (1) = (a+b+c)	**281,046**
Borrowings due in less than one year (d)	53,441
Available credit lines maturing in less than one year and bank overdrafts (e)	88,995
NET CASH AND CASH EQUIVALENTS AVAILABLE DURING THE NEXT YEAR (1-d-e)	**138,610**

The "table of future cash flows", presented in the consolidated financial statements (Note E.16.7.b) provides a breakdown of future liabilities by maturity.

– Share risk

The Group does not hold a share portfolio but deposits excess cash balances. At 31 March 2011, it had certificates of deposits of €33.6 million and fixed-term deposits of €10.5 million.

The risk of these instruments is deemed low.

6.2. LEGAL RISK

This heading provides a limited overview of the various forms of legal risks arising from the Group's operations and also the execution of its contractual requirements. The Group considers that sufficient provisions charges have been recognised to date to cover all risks and litigations.

– Risk of non-conformity

The Faiveley Transport Group may be confronted by the usual risks encountered by all industrialists that produce and sell manufactured products: these are contractual liability put forward by another professional (car builder, operator, and maintenance) in the event of non conformity of products delivered or non respect by the seller of contractual commitments in terms of timescale, reliability, life, etc. Guarantees concerning the proper operation of products delivered are granted for longer or shorter periods (between 12 or 36 months on average) according to the demands of the final customer, the type of project and its specific features. The risk related to this contractual guarantee is evaluated upstream and included in the price of the product.

The risk of cancellation for fault is low due to the understanding and technical feasibility study of the project by a specialised and dedicated team within the design office, as well as the selection of dual source suppliers to avoid any sudden interruption in the delivery of components or materials.

In order to limit the risk of non-conformity, the Group also uses the contractual technique that restricts certain types of damages, and even eliminates some of them (loss of profit, damage to image, loss of customer base or sales).

When it occurs, litigation is very frequently settled out of court and under conditions that do not endanger future relationships between the parties.

In addition, the Faiveley Transport Group uses insurers to cover operational civil liability and products adapted to its business and in compliance with customer demands.

It should be noted that, arising from the railway business, the Group and its subsidiaries are contractually bound to maintain equipment with a life span of several decades. A specific plan is set up to manage obsolescence of each project, with the participation of the manufacturer and/or operator. The requirement to keep equipment operational and reliable during this time period imposes on the equipment supplier the need to ensure leading edge technology and to set up a stock of spare parts in order to avoid a sudden break in supply. Strict contractual obligations (duty of alert, end of life orders, selection of a second source, etc) are imposed on the Group's own suppliers.

At 31 March 2011, a €23.1 million provision for risk of non-compliance of products sold was recognised in the financial statements. These risks were estimated by project managers and engineers.

During the 2010/2011 financial year, Faiveley Transport agreed to settle the dispute that was filed against its U.S. subsidiary, Faiveley Transport USA.

The Faiveley Transport, Faiveley Transport USA and Faiveley Transport Malmö companies had a writ issued against them by the Bombardier – Alstom consortium in the New York courts on 7 August 2008, as part of proceedings seeking redress for damage caused by faults (fine cracks) observed on brake discs partly supplied by the German subsidiary Faiveley Transport Witten (formerly BSI) in the years 1996 to 2000 to Knorr-Bremse. These were equipped on the Acela Amtrak operator's trains operating between Washington DC and Boston. The other brake supplier was the US company Wabtec. The manufacturer consortium, as well as the Knorr Bremse company reached an out-of-court settlement on the issue with the operator. These three companies then turned against the suppliers of the product they deemed the cause of the fault, i.e. Wabtec and Faiveley Transport. Wabtec accepted an out-of-court settlement. Faiveley Transport Group first turned down an out-of-court settlement. As a result, the Group was summoned, through its above-mentioned subsidiaries, before the courts of New York and subsequently South Carolina in February 2009. The amount of damages sought by the consortium, which represented the interests of all parties involved, was USD 55 million. The Supreme Court of the State of New York, in its ruling of 24 March 2010, dismissed the consortium's claims in full and took into consideration the arguments of the Faiveley Transport's counsels. The Group finally agreed to a settlement agreement, signed on 3 November 2010 with the consortium, Faiveley Transport agreeing to settle the $4.1 million in exchange for the dropping of all actions and legal remedies, both present and future, by all stakeholders involved in the case.

– Risk of counterfeit

In the area of intellectual property, the Faiveley Transport Group holds a portfolio of patents and brands that provide it with competitive advantages. Every entity with a design office has set up a process to monitor technology to detect all inventions patented by third parties that may constrain its future developments.

Groups within the leading technical project staff have been organised internally to detect every risk related to counterfeiting of intellectual and/or industrial property rights that may be held in third parties.

The Group avoids granting licences to countries where counterfeiting is not easily punished.

Across the selection of specialists in intellectual property, the Group has built a portfolio of patents and brands that is regularly analysed and evaluated. These specialists carry out, on behalf of the Group, surveillance of all similar patents and/or brands and take the necessary steps to protect the Group's rights in that area, both in France and abroad.

The technology, as well as the expertise held by the Group are also automatically protected by secrecy, which is reflected in the signature of confidentiality agreements with both customers and suppliers very early in the pre-contract relationship.

It should be noted here that Faiveley Transport Malmö sought, as part of an arbitration procedure carried out under the auspices of the International Chamber of Commerce, a conviction of Wabtec Corporation for the misappropriation by Wabtec, since 1 January 2006, of intellectual property relating to friction brake cylinders (BFC TBU brakes), as well as two other braking product concepts (PB-PBA actuators) that are unique to Faiveley Transport. On 24 December 2009, the arbitration was released by the arbitration committee: the arbitration award confirmed that Faiveley Transport is still the owner of trade secrets in relation to the manufacture of the products, and that Wabtec had breached the license agreement once it had been cancelled, as well as certain obligations resulting from this agreement. Furthermore, the award confirmed that the reverse engineering process implemented by Wabtec to obtain a product that is utterly different from Faiveley Transport's may be deemed tainted.

Faiveley Transport Malmö was awarded USD 3.9 million in damages plus interest from Wabtec.

Wabtec was also ordered to pay the royalties that Faiveley Transport should have received in respect of products sold by Wabtec on orders resulting from contracts signed before the licence expired and delivered from 2006. In addition, Wabtec was ordered to cease using manufacturing drawings and other documents relating to these products, except for those that enable Wabtec to fulfil orders resulting from contracts signed before the licence agreement was revoked.

The enforcement order of the arbitration award in the US was granted by a New York Court on 10 May 2010.

Following the favourable outcome of the arbitration, on 14 May 2010, Faiveley Transport initiated a new legal action against Wabtec, before the courts of New York, through its subsidiaries Ellcon National, Faiveley Transport USA, Faiveley Faiveley Transport Nordic and Faiveley Transport Amiens in compensation for damages suffered in the U.S., on the basis of unfair competition and the violation of trade secrets. In a ruling on 13 April 2011, the district court in New York acknowledged that Wabtec was responsible to the corporate plaintiffs, for acts of unfair competition, misappropriation of confidential and secret information, which was the property of Faiveley Transport, and unjust enrichment concerning the friction brake cylinders (CFB-TBU) and actuators PB-PBA.

The district court will examine the damages alleged by the plaintiffs in future hearings, which are expected to take place in June 2011.

In May 2008, the US company Wabtec Corporation issued a writ against Faiveley Transport USA in the Pennsylvania courts for unfair competition in the US territory. No figure has been put on their claim to date. This proceeding is in response to the above described two procedures, launched on the initiative of the Faiveley Transport Group. Defence conclusions were filed on behalf of Faiveley Transport USA on 22 October 2008, rejecting Wabtec's demands in full and highlighting the close connection with the above described procedures. This case is still pending before the courts of Pennsylvania. The procedure calendar refers to March 2012 for the closure of the "Discovery" operations and January 2013 for initial hearings.

– Tax risk

The Group has set up the rules required to understand the subject in an international context and uses external consultants, case by case, country by country, to best protect its interests.

Every Group subsidiary is led by a local team that must ensure that their business is conducted in compliance with the local regulations in force.

A tax audit has been ongoing since the start of 2008 on Faiveley Transport. A rectification proposal was issued on 15 July 2008 by the tax authorities. The corrections considered relate to an additional income tax payment of about €190 thousand. These corrections are still subject to proceedings initiated by Faiveley Transport against the tax authorities.

The tax audits of the companies Faiveley Transport and Faiveley Transport Tours Witten, initiated during the 2009/2010 financial year, ended during the period ending 31 March 2011. These audits generated adjustments of €184 thousand for Faiveley Transport Tours and of €283 thousand for Faiveley Transport Witten. Tax audits are being finalised for the companies Ellcon National, Faiveley Transport USA and Faiveley Transport Leipzig. In addition, a new tax audit was initiated in April 2011 on the company Faiveley Transport.

– Other risks

- **Anti-competition risks:** the Group's business sector is not significantly exposed to this type of risk. In fact, the modest number of players as well as the system for public tenders is not open to this kind of illegal behaviour.
- **Corruption risks:** certain contractual requirements have been considered and prepared to protect the Group against any abuse in this area.

6.3. INDUSTRIAL AND ENVIRONMENTAL RISK

In this area, the Group has identified exactly and fully the various classes of risks it may confront by the nature of its business.

These classes are the following:

– Product risk

Even though the Faiveley Transport Group is positioned in the sector for the production and sale of certain parts described as safety for the railway industry (brakes, doors, etc.) and thus, inherently exposed to contractual or criminal liability in respects of "product", the Group's level of exposure to such risks is considered to be medium by the civil liability insurance players. The evaluation takes into account the process of product design as well as the type and content of the markets operating between the manufacturers and the operators.

In French contracts, the legal liability for hidden defects also applies throughout the life of the product even if, between professionals, its application may be expressly excluded by contract.

Liability as a result of product defects may also have an effect in terms of risk, even if the user often only knows the operator, while the chain of contract prevails between the operator, the manufacturer and the equipment supplier.

The organisation and management of quality, the selection and monitoring of suppliers and subcontractors, the follow up of complaints and the contractual environment are adapted to the nature and potential scale of the exposures.

The production series are short. Orders for supply of raw materials and components are carried out by project. The most unfavourable case would thus be a design error impacting an entire project.

This may represent an average of several thousand parts. The nature of the fault may be rapidly understood due to the expertise of the teams and the possibility of dispatching technicians on site to find the best technical solutions for operators.

As regards suppliers, a selection process exists covering, in addition to the criteria of financial stability, an audit of selection by the supplier's quality department and follow up of performance. Every return or rejected component leads to the organisation of a Group team dedicated to resolving the problem, to analyse the causes and take a decision as to changes to be made to avoid a recurrence of the same problem.

Design and development are carried out under the guidance of Technical Management as part of a customer project or at the time of in-house R&D developments, initiated by the Group. For each project identified as critical, a formal plan is prepared, split into fundamental tasks, implemented and updated by the project manager and project coordinators. The features taken into account at the start of the project are functional and performance requirements, regulatory and legal requirements where applicable, information from previous similar designs and all other requirements required for the design and development. Project reviews are carried out and reports produced. The verification of the designs comprises execution of calculations, the realisation of AMDEC as well as verification of the plans.

The internal validation of the design is carried out by test laboratories for the prototype stage on the basis of a formalised validation plan. Prototypes are validated by the customer with certification trials and/or types followed by FAI (First Article Inspection).

Every new order for parts is subject to a material check, dimension check, and verification of compliance with legal and regulatory requirements and an environmental analysis.

All products are identified. The products carry an identification plate showing an identification number and series number, enabling the date of construction to be found and the trial notes with the name of the related operator. The series number of devices comprising a sub-assembly is identified from these notes. Small parts are traced by production batch.

Additional information, concerning a methodology of evaluating provisions for customer risks, is described in the notes to the consolidated financial statements (§C-Consolidation principles and methods, note 15.2).

Warranty provisions are calculated based on a specific percentage for each product manufactured and the reliability experienced over time. Percentages vary between 1% and 6% depending on products and are applied to sales achieved, project by project.

At 31 March 2011, the warranty provisions totalled €43.6 million.

The amount provided in respect of the warranty and Customer Services, as well as litigation declared by our customers and penalties payable, is disclosed, for the last three years, in the notes to the consolidated financial statements (Note E 14.3).

– Health and safety risk

In most European industrial sites, a safety coordinator manages all aspects of site "health, safety and environment" on a daily basis, making the necessary checks in the factory, studying and recording the product received, updating the job files and organising training.

The objective of general management is to integrate safety into the management system for quality and the environment (QHSE approach), an approach heavily sustained and supported by the Group's insurers.

The job files summarising the risks of various activities and specifying the required individual protection equipment are displayed at all work stations. Every accident with work stoppage is subject to a detailed analysis of the circumstances and causes and where necessary, leads to action being taken to prevent any recurrence.

At French sites, a single administrative document was established and a fire work permit was instituted for all third parties liable to work using hot spots on the premises.

Taking account of the number of external companies operating on the sites, improvements were made at the level of the storage point for chemicals and paint.

– Continuity of business after a disaster

The French sites now avail of in-house fire-fighting personnel, in line with insurers' recommendations. The quantity of flammable material stored in production areas has also been significantly reduced.

Each industrial site has identified potential emergency and accident situations and set up regularly tested emergency plans.

Concerning the risks of production interruption following a fire or flood, it should be noted that the major industrial sites have set up emergency procedures describing the steps to take following a large scale incident that could fully or partly paralyse the operation of the site concerned.

Survival plans are being developed at the Group's major sites in order to take the necessary steps and reduce the consequences, as soon as possible after an incident. The list of companies that can provide repair equipment as well as those specialising in decontamination of electrical devices has been listed.

Those in charge of taking the major steps after an incident have been designated beforehand to find the most adequate response. Taking account of the size of these sites as well as occasionally the proximity of other Group establishments in the same geographical area, it is necessary to consider specific and rapid solutions to reduce the consequences of a large scale incident.

The majority of production tasks can be easily subcontracted and are for the most part manual. The machines, though expensive, can be acquired relatively rapidly. In addition, the interdependence of sites is limited.

– Dependence on suppliers and/or subcontractors

As part of its business, the major operating entities of the Group may be confronted with a state of dependence on certain suppliers and/or subcontractors for certain commodities, or with certain suppliers and/or subcontractors being dependent on the Group.

The implementation of best purchasing and management purchasing practices by type of commodity and by supplier enable us to accurately assess these risks of dependence and take the necessary steps.

Increased monitoring, due to the international economic crisis, was put into place in order to anticipate any major suppliers' failure.

– Increased cost of raw material and transport risk

This information is detailed in § 6.1 and in the consolidated financial statements (note E.16.5.c).

– Environmental risk

The industrial sector, where the Group operates, is subject to compliance with restrictive and multiple environmental standards. The production processes require the use of chemical products (paint, glue, surface treatment, etc.) that may pose a risk for the environment.

The major French sites are ICPE classified (classified sites for the protection of the environment) and subject to a declaration system, and even authorisation for some of them, from the competent regional authorities.

The administrative authorities may also require steps to be taken to prevent or cure, up to the closure of sites in the event of serious violations of applicable regulations in the area of labour and/or environmental law. The Faiveley Transport Group may also be held liable by third parties under the regulations protecting the environment and the general principle of criminal liability.

The Group is fully aware of the importance of managing compliance with regulations in the area of the environment by dedicating a senior engineer to the aspects of safety – health – environment, who must verify every day whether the site he is responsible for is compliant with the various standards applicable.

Audits carried out by the insurers have disclosed some weaknesses in the manner of understanding this risk. Even though the quantity of pollutants used in the business is very small, the Group may be called on to pay rehabilitation costs, fines or damages-interest relative to the non-compliance with environmental standards.

The factories of Saint-Pierre-des-Corps and Amiens are both in industrial parks with a SEVESO classified site that stores oil and chemical products. In the event of problems on these sites close to the Group's production units, this could have a negative effect on their production capacity.

The sites of Saint-Pierre-des-Corps (Electromechanical) and La-Ville-aux-Dames (Electronics) are situated in the flood plain of the Loire and Cher rivers. According to the map of risks and the IGN69 system, the two sites are in an area of medium level risk (water depth of 1 to 2 metres with modest to nil speed or less than 1 metre with medium speed). The two sites at Saint-Pierre-des-Corps are in a Natura 2000 area.

As the constraints of safety, environment and pollution are becoming ever greater, the Group is conscious that it may be obliged to incur expenditure notably to enhance the procedures for monitoring soil, water and air pollution. However, these investments would not be significant for the Group.

In addition, in order to comply with European Directive n° 2004/35, the Group, from 31 March 2009, decided to subscribe additional guarantees in terms of insurance. Environmental damage and soil and water cleanup guarantees were added to the accidental and gradual environmental damage policies.

The Group is already committed to areas of improvement in the storage of products posing a danger to the environment (retention tank, anti-fire cabinets, management of condensates from compressors, elimination of PCB transformer, etc.) and the reduction in the emission of volatile organic compounds. The use of toxic products for surface treatment such as chromic acid and hydrofluoric acid, requires adequate and regular monitoring , (once a quarter) which is carried out by each site concerned.

Below are specific matters that the Group is confronting at the moment.

- Faiveley Transport Amiens, as the last operator of classified installations at Sevran, 4 boulevard Westinghouse, a site occupied by Sab Wabco until 1999 for the production of cylinders for braking systems, was declared to be a polluted site and in this respect likely to create a nuisance or an ongoing risk for people or the environment, under an order from the Prefect on 11 April 2005. This order requested Faiveley Transport Amiens to conform to certain instructions to rehabilitate this site. It should be mentioned here that the land concerned was sold on 16 September 2002 by Faiveley Transport Amiens and that the acquirer in an express condition of the transfer document, agreed to make it his personal business and to incur exclusively all potential cleanup work that would be

deemed necessary under the administrative procedure launched by the Prefecture of Seine Saint-Denis and whose completion was the notification of the above mentioned order. The acquirer and his successors were regularly informed and associated with the procedure in progress. The site was again sold under a legal deed signed on 16 December 2009. The new owner committed to carry out the rehabilitation, pollution cleanup and soil improvement of the site, under his own responsibility and at his own expense, in line with the current and future indications, formal notices and administrative rulings that have or are liable to be taken against Faiveley Transport Amiens (formerly Sab Wabco) and deal with any complaint, legal action, claim or proceedings relating to the environmental condition of the building, its soil and subsoil. The new owner is a specialist in this type of work.
The hearing before the Administrative Court of Montreuil resumed at the request of the town of Sevran, implicitly challenging the decision of the prefect of Saint-Denis to take no action and to terminate the investigation relating to the request for the restoration of the site to its original condition. A Court decision is expected in early June 2011. Faiveley Transport Amiens acts as an observer in this process.

- In 2003, the Brazilian subsidiary of the Sab Wabco Group, not yet acquired by the Faiveley Transport Group, sold land to the company Cyrela. A risk of pollution to the soil was identified in 2004, subsequent to the purchase of the Sab Wabco Group by Faiveley Transport, as a result of which the latter supported the costs of decontamination of the soil. Due to this risk of pollution, Cyrela retained a part of the sale price (R$3.7 million, being €1.6 million, remains outstanding).

  The situation is currently as follows:
  – work to picket the contaminated area has been completed. An environmental audit will soon be completed and decontamination work, which started in November 2009, is taking place under the agreed conditions. Site meetings are regularly held with the provider for an update on soil quality;
  – on completion of the work that will allow the contaminated soil to achieve a level of quality acceptable to local authorities, the company Cyrela may request building permits. At the issuance of these permits, the withholding of the payment may be released and the payment made.

  At 31 March 2011, a provision of R$1.4 million had been recognised in relation to this issue (€600 million).

6.4. IT RISK

The Group's unwavering concern is to protect its IT infrastructure, data and application software. Centralised applications are hosted with several partners who ensure the physical security of the hardware and software protection access within a "Service Level Acceptance" agreement.

Having developed application software that make communication and mobility increasingly easier, the Group attaches great attention to anti-intrusion systems (firewalls) and information access security profiles.

The Group is committed to a major project "Moving Forward" that aims to integrate the information system of the entire Group.

This project covers:

– infrastructure optimisation;

– unification of the communication policy;

– integration of the industrial operation of the Group via a single ERP (Enterprise Resource Planning).

To secure the rollout of a single ERP, the Group management has set up a project platform at the Group level, and called upon external consultants. To control these risks, the Group elected to have a pilot phase that will set the Group configuration before rolling out progressively to all subsidiaries.

The pilot sites are currently in production (Leipzig and Gennevilliers). A feedback is being analysed and will converge to a unique solution to be rolled out, starting in 2012, at the other Group subsidiaries.

B PARENT COMPANY FINANCIAL STATEMENTS: FAIVELEY TRANSPORT AT 31 MARCH 2011

B.1. Parent company financial statements (according to French accounting principles)

1.1. INCOME STATEMENT

	2010/2011	2009/2010	2008/2009
Sales	48,860	48,565	1,402
EBITDA*	(1,180)	146	(3,482)
% of sales	*(2.4%)*	*0.3%*	*(248.4%)*
Profit/(loss) from recurring operations	(1,600)	(235)	(3,484)
% of sales	*(3.3%)*	*(0.5%)*	*(248.5%)*
Operating profit/(loss)	**(1,600)**	**(235)**	**(3,484)**
% of sales	*(3.3%)*	*(0.5%)*	*(248.5%)*
Net finance income (expense)	(2,216)	37,156	75,161
Exceptional income/(expense)	1,317	(244)	–
Income tax	742	4,630	5,210
NET PROFIT/(LOSS)	**(1,757)**	**41,308**	**76,887**

(*) Operating profit plus amortisation and depreciation.

Faiveley Transport (formerly Faiveley S.A.) continues to provide services for the Group, as the holding and management company. The €48.9 million sales achieved in 2010/2011 were stable compared to the previous year (€48.6 million). The significant increase of the previous financial year was primarily due to the fact that the transfer of all assets and liabilities of the former Faiveley Transport company, carried out on 31 March 2009, had had no impact on the parent company income statement.

As in the past, Faiveley Transport rebilled a significant portion of its expenses to its subsidiaries. The operating loss was €1.6 million, compared to a loss of €0.2 million in 2009/2010. This decline was primarily due to an increase in non-productive fixed costs of approximately €1.5 million.

The net finance expense was €2.2 million, compared to an income of €37.2 million in the previous year. This movement was primarily due to the collection of exceptional dividends of €45.7 million in 2009/2010. In 2010/2011, dividends of €0.4 million were collected.

Excluding dividends, the net finance expense improved by €6 million in the 2010/2011 financial year. This was due, on the one hand, to a decrease of €0.8 million in the interest expense, which relates to current accounts, bank overdrafts and interest on borrowings, partly offset by interest on loans. Faiveley Transport also recorded net foreign exchange gains of €3.6 million and a positive movement of €0.9 million following the release of a provision for foreign exchange losses. The interest expense on the bank borrowings taken out on 23 December 2008 amounted to €9.8 million, compared to €11.8 million in the previous year.

The €0.7 million income tax refund recognised at 31 March 2011 reflects the tax grouping gain of €1.5 million achieved during the period, reduced by the tax charge generated by the German subsidiaries, Faiveley Transport Holding Gmbh & Co KG and Faiveley Transport Leipzig GmbH & Co KG for €0.9 million and increased by a withholding tax credit of €0.1 million.

1.2. BALANCE SHEET

	2010/2011	2009/2010	2008/2009
Net non-current assets	954,847	963,641	980,994
Current assets	46,330	44,384	52,512
Cash	286,584	248,958	234,655
TOTAL ASSETS	**1,287,761**	**1,256,983**	**1,268,161**
Equity	194,426	213,081	185,841
Provisions	960	1,972	2,548
Financial debt	1,059,357	1,005,117	1,038,257
Other liabilities	33,018	36,812	41,515
TOTAL EQUITY AND LIABILITIES	**1,287,761**	**1,256,983**	**1,268,161**

Net non-current assets take account of the recognition of a €384.8 million technical deficit, registered on the transfer of Faiveley Transport and Faiveley Management's assets and liabilities to Faiveley S.A., intangible assets of €11.9 million, equity investments of €418.9 million and receivables of €140 million attached to these investments.

Equity investments increased by €5.2 million with the acquisition of the Swiss subsidiary, Urs Dolder AG and the buyout of the minority shareholders of Faiveley Transport Lekov. Receivables from subsidiaries decreased by €17.8 million being a decrease in loans to subsidiaries of €12.1 million and a decrease of €5.7 million in current account balances due from subsidiaries.

Current assets increased by €1.9 million during the year. This increase was primarily due to the €5 million increase in trade receivables, offset by the €1.7 million decline in other receivables and a €1.4 million decline in receivables related to the tax grouping.

Cash and cash equivalents grew by €37.6 million during the year. This improvement was due to a €5.7 million increase in marketable securities and a €43.3 million increase in cash.

Equity decreased from €213.1 million at 31 March 2010 to €194.4 million at 31 March 2011. This €18.7 million negative movement may be analysed as follows:

- loss for the year: €1.8 million;
- payment of dividends: €16.9 million.

Provisions decreased by €1 million due to reversals of provisions for foreign exchange risk. This item consists mainly of provisions for litigation of €0.8 million.

Financial debt was valued at nominal value and comprised:

- the €367 million loan granted by the banking pool, with a view to reorganising the Faiveley Transport's shareholding;
- current bank and cash pooling overdrafts (Group cash management), for €228 million;
- the loan subscribed from the Faiveley Transport Malmö subsidiary, for €27.9 million;
- credit current accounts with Group companies, for €436 million;
- accrued interest in relation to the above financial debt, for €0.2 million;
- the balance of the special reserve for employee profit sharing, which is remunerated at the base lending rate, for €65 thousand.

Other liabilities also decreased by €3.8 million during the year. This movement was primarily due to a €2.6 million decline in the liability translation adjustment.

B.2. Subsequent events after 31 March 2011

On 1 April 2011, Thierry Barel was appointed as Chairman of the Management Board and Chief Executive Officer by the Supervisory Board, to replace Robert Joyeux who resigned his duties.

On the same day, the Supervisory Board also appointed Guillaume Bouhours, Group Chief Financial Officer, as a member of the Management Board.

B.3. Research and development costs

None in the Faiveley Transport financial statements.

B.4. Change of method during the year

None.

B.5. Information on non-tax deductible changes

Non tax-deductible charges at 31 March 2011 amounted to €26,322.

B.6. Information on payment terms

At 31 March 2011, trade payables posted to the balance sheet totalled €12,299 thousand, of which €10,467 thousand related to international intercompany invoices, due in 60 days at end of month, payable on the 5th of the month.

The aged analysis was as follows:

	30 days	60 days	+ 60 days	Total
Trade payables at 31 March 2011	561	429	11,309	12,299
Trade payables at 31 March 2010	1,677	1,274	10,927	13,878

B.7. Treasury shares

The company directly and indirectly holds 3.21% of the share capital.

B.8. Analysis of results and allocation of the 2010/2011 net loss

- Table of results of Faiveley Transport for the last five years:

Attached to the present report, pursuant to the provisions of Article R225-102 of the Commercial Code, is the table of the results of the Company for each of the last five years.

- Proposed allocation of net loss:

We would ask you to approve the annual financial statements (balance sheet, income statement and notes) as presented to you, showing a net loss of €1,757,423.54.

We would also ask you to approve the following allocation of net loss for the financial year ended 31 March 2011:

Loss for the year	(€1,757,423.54)
Increased by:	
Retained earnings	€86,292,398.91
Distributable profit	€84,534,975.37
– Allocation to the legal reserve:	€0
– Dividend payment, i.e. €1.20 per share:	(€17,285,653.20)

The balance of €67,249,322.17 will be allocated in full to "Retained earnings".

The dividend will be payable with effect from 19 September 2011.

Taking account of the allocation, the equity of the Company amounts to €177,139,971.16.

If at the time of the payment, the Company holds treasury shares, the profit distributable corresponding to the unpaid dividend due to the holding of the shares, shall be allocated to the account "retained earnings".

It should be noted that over the last three financial years, the following sums were paid in dividends: €17,285,653.20 for the financial year 2009/2010, €14,404,711 for the financial year 2008/2009 and €4,385,354.75 for the financial year 2007/2008.

C. INFORMATION ON THE SHARE CAPITAL

C.1. Bylaws conditions governing revisions to the share capital and corporate rights

The share capital is increased, either by the issue of new shares, or by an increase in the nominal value of existing shares.

New shares are fully paid, either in cash, or by offset against current liabilities of the company, or by incorporation of reserves, profits or share premium, or by transfer in kind, or by conversion of bonds. New shares are issued at their nominal value, or at that amount increased by a share premium.

An Extraordinary General Meeting is the only competent body to decide, on a report by the Management Board, to increase the share capital. A reduction in share capital is authorised or decided by an Extraordinary General Meeting that may delegate to the Management Board all powers to carry it out. A capital increase must be completed within five years from the date of the General Meeting that decided or authorised it.

C.2. Capital issued and capital authorised but unissued

2.1. CAPITAL ISSUED

At 31 March 2011, the share capital of the company was €14,404,711. It comprises 14,404,711 shares of €1 nominal value each, fully paid, all of the same class.

- **Revision to the share capital and rights attached to shares**

Every revision to the share capital or rights attached to securities that comprise it, is subject to the law; the bylaws do not provide for specific requirements.

- **Form and registration of shares**

Shares are in nominative or bearer form at the choice of the shareholder. Both these categories are subject to the law that relates to them.

- **Existence of thresholds in the bylaws**

Apart from the legal requirement to inform the holding company of certain fractions of the share capital, there is no particular requirement in the bylaws.

- **Identification of bearer shareholders**

Except in instances specified by the law, fully paid up shares are either held in nominative or bearer form, at the shareholders' discretion. Shares are registered in accordance with the terms and conditions provided by law.

The Company is authorised to use, at any time, the legal provisions in respect of identification of holders of securities giving, immediately or in time, the right to vote at shareholders' meetings.

- **Company share registrar**

The Company has delegated its share registrar service to Société Générale Securities Services: 32, rue du Champ de Tir – BP 81236 – 44312 Nantes Cedex.

- **Transfer of shares**

The transfer of Company shares between living persons or by death can be done freely. Company shares are transferred with regard to third parties and the Company by a transfer order from account to account. Shares in the Company that are not fully paid in respect of payments due cannot be transferred.

2.2. CAPITAL AUTHORISED BUT NOT ISSUED

Delegation of authority to increase the share capital

On the occasion of the Combined General Meeting of 22 September 2009, a resolution (tenth resolution) was approved by the shareholders in relation to an authorisation to be given to the Management Board to issue shares or marketable securities giving the right to allocate new or existing shares in the Company with, in the event of the allocation of new shares, the facility to cancel the pre-emption right to subscribe.

This resolution was adopted by a qualified majority.

Pursuant to Article L.225-136 of the Commercial Code, which was derived from the Order of 22 January 2009 that came into force on 1 April 2009, the Management Board was authorised to increase the share capital, with cancellation of the pre-emption right, with the facility of carrying it out in one or more offerings in accordance with section 2 of Article L.411-2 of the Monetary and Financial Code, and not exceeding 10% of the share capital of the Company.

This authorisation was given for a period of 26 months from 22 September 2009.

The Management Board, in the event it would decide to use the authorisation bestowed on it, would request prior approval from the Supervisory Board and would report to the following Annual Ordinary General Meeting, in accordance with the law and applicable regulations, about the use made of authorisations granted by this resolution.

This authorisation has not been implemented by the Management Board to date.

C.3. Analysis of shareholders and voting rights at 31 March 2011

3.1. According to the information supplied by Société Générale, amongst which, the register of nominative shareholders and the identification of a certain number of bearer shareholders, the shareholders and the voting rights in the Company at 31 March 2011, were as follows:

Principal shareholders at 31 March 2011	Number of shares	% of capital	Single voting rights	Double voting rights	Total voting rights	% voting rights
Financière Faiveley	6,315,375	43.84%	59,412	6,255,963	12,571,338	57.51%
François Faiveley Participations (F.F.P)	1,159,288	8.05%	354,538	804,750	1,964,038	8.98%
François Faiveley	225	0.00%	–	225	450	0.00%
Thierry Faiveley	215,190	1.49%	215,190	–	215,190	0.98%
Faiveley indivision	5,000	0.03%	5,000	–	5,000	0.02%
Erwan Faiveley	5	0.00%	–	5	10	0.00%
Total Faiveley Family	**7,695,083**	**53.42%**	**634,140**	**7,060,943**	**14,756,026**	**67.50%**
Directors and senior executives(*)	219,307	1.52%	98,680	120,628	339,935	1.56%
Treasury shares	462,777	3.21%	–	–	–	0.00%
Nominative shares(**)	747,258	5.19%	10,852	736,406	1,483,664	6.79%
General public	5,280,286	36.66%	5,280,285	–	5,280,286	24.15%
TOTAL	**14,404,711**	**100.00%**	**6,023,957**	**7,917,977**	**21,859,911**	**100.00%**

(*) Exluding E. Faiveley and F. Faiveley.
(**) Excluding Faiveley Family, senior executives and treasury shares.

To the knowledge of the Company, no other shareholder held over 5% of the share capital or the voting rights at 31 March 2011.

3.2. ANALYSIS OF THE SHARE CAPITAL OVER THE LAST THREE YEARS

	2010/2011 % of capital	2009/2010 % of capital	2008/2009 % of capital
Nominative shares	60.15	58.94	66.50
General public	39.85	41.06	33.50

3.3. SHARE CAPITAL OF THE COMPANY SUBJECT TO PLEDGES

Name of shareholder as pure nominative form	Beneficiaries	Start date of pledge	Expiry date of pledge	Condition for release of pledge	Number of shares pledged at 31 March 2011	% of capital pledged
Financière Faiveley	Société Générale and Crédit Lyonnais	24/03/2006	31/03/2016	Full repayment of loan granted	70,400	0.49
François Faiveley Participations	Société Générale and Crédit Lyonnais	24/03/2006	30/03/2013	Full repayment of loan granted	4,062	0.028

C.4. Movements in the share capital during the last six years

Date	Transactions	Increase in capital (€)	Cumulative number of shares	Capital (€)
31 March 2005	Nil	Nil	2,487,917	12,439,585
27 September 2005	Exercise of options to subscribe	90,000	2,505,917	12,529,585
15 March 2006	Reduction in nominal value of shares	Nil	12,529,585	12,529,585
31 March 2006	Nil	Nil	12,529,585	12,529,585
31 March 2007	Nil	Nil	12,529,585	12,529,585
31 March 2008	Nil	Nil	12,529,585	12,529,585
23 December 2008	Issue of new shares	1,875,126	14,404,711	14,404,711
31 March 2009	Nil	Nil	14,404,711	14,404,711
31 March 2010	Nil	Nil	14,404,711	14,404,711
31 March 2011	Nil	Nil	14,404,711	14,404,711

C.5. Employee interest in the Company's share capital

FCPE Faiveley Shares held 15,500 shares (0.11%) in the company at 31 March 2011.

Employee shareholding represented 1.12% of the share capital of the Company at 31 March 2011 (excluding shares held by Robert Joyeux).

C.6. Shareholders' agreements concerning the securities comprising the share capital of the Company

As part of the reorganisation of the Group's shareholding, carried out in December 2008, the executive shareholders of Faiveley Management SAS and Faiveley M2 received Faiveley S.A. (renamed Faiveley Transport) shares in exchange for shares in these two companies, which were transferred to Faiveley S.A.

The 557,233 Faiveley S.A. shares held by the former shareholder of Faiveley Management SAS are subject to a lock up clause, from 23 December 2008, relating to all of the shares received for a period of 2 years and 2/3 of the shares for a period of 3 years. In addition, over a period of six years from that date, any disposal by a former shareholder of Faiveley Management SAS of a block of more than 10,000 Faiveley shares is subject to a Faiveley Transport pre-emption right. On the departure of Etienne Haumont in September 2010, this requirement was waived under the settlement agreement signed between the officer and the Company.

The 147,893 Faiveley Transport shares held by the former shareholders of Faiveley M2 are subject to a vesting clause, which specifies the conditions for the purchase by Faiveley Transport, in case of a manager's departure from the Company before 12 September 2010, and were also subject to a lock up clause until 23 December 2011. In addition, over a period of six years from 23 December 2008, any disposal by a former shareholder of Faiveley M2 of a block of more than 3,000 Faiveley shares is subject to a Faiveley Transport pre-emption right.

D. CORPORATE INFORMATION RELATING TO THE GROUP

D.1. Human resources policy

Faiveley Transport is a group with an international culture and dimension. Its business is reflected in long-term contractual relationships with its customers. In order to capitalise on knowledge acquired throughout the life of these projects, the Faiveley Transport Group has resources enabling it to ensure staff loyalty over time.

The Faiveley Transport Group provides real prospects of career development thanks to a policy of geographical mobility and to shared expertise.

The Human Resources Department has been strengthened and is standardising the human resources policy on all sites, to rationalise costs, to encourage staff mobility and to optimise career management.

Since the start of 2008, new indicators have been put in place by the Human Resources Department, in all of the 47 sites in 24 countries. Today, the consolidation and analysis of these indicators provides better visibility of the needs and allows arbitrating priorities in the best way possible.

1.1. ENSURE CAREER DEVELOPMENT

The policy adopted by the Human Resources Department is based on the dynamics of mobility and exchange of experiences. The more skills are transferred and good practices exchanged among the various entities in the world, the greater the level of the Group's expertise is reinforced.

Reinforced by this conviction, Faiveley Transport encourages the development of technical and project teams as close as possible to their customers. Technical knowledge acquired by the Faiveley Transport staff, based in the four corners of the world, enables them to support their customers better and respond to their needs.

Using the strength of its expertise at a local level, the Group thus benefits from its international scale.

The Group seeks to retain its human capital, that of its engineers as well as all employees, to respond better to the overriding requirement of reliability, safety and long life of its equipment.

It is for this reason that the Group encourages internal mobility, on a professional and geographic basis. This can provide a solution to the need to adapt employment levels as well as to integrate the aspirations of the employees.

Internal mobility also provides employees with career opportunities that encourage their professional development by the acquisition of new expertise and qualifications.

In order to promote this internal mobility, a website was set up on the Group intranet portal that everyone can consult, in priority, on the positions open on all sites in the world. It is only thereafter that job offers are advertised externally.

In the same vein, the Group has been committed since 2009, with all local Human Resources executives, to continue the consideration of the tools and practices in use, to improve the contents and to ensure that in each country there is a common Group standard (in the area of training, annual performance review, etc).

For instance, a common policy was implemented for holding annual performance review interviews; a common performance review form for all entities was prepared in consultation with local Human Resources officers.

At the same time, in order to support managers in this process, training will be provided on how to conduct these interviews.

In 2010, this thought process continued via the setting up of a Group-wide induction booklet. This document is intended to provide every new hire with a comprehensive overview of the Faiveley Transport Group, as well as all practical local information necessary to their integration. This is also a mean of strengthening the sense of belonging to Faiveley Transport.

In 2011, always in the spirit of harmonising of tools and practices in use, several projects emerged:

– A Group-wide information technology charter was established and distributed to all subsidiaries. This charter is intended to formalise the rules of law, ethics and security for the use of information systems and for communication within the companies belonging to the Faiveley Transport Group.
– A time management tool has been rolled out in France in an effort to streamline and optimise payroll administration tasks.

In the context of a changing economic environment maintaining and developing employees' expertise is an essential feature of the growth and overall performance of the Group.

Professional training constitutes in this respect a major area of the Human Resources policy. The Human Resources indicators obtained in 2010/2011 revealed that the training programmes concerned all professions.

In addition to making people aware of safety measures and quality standards, the largest part of the training budget continued to be dedicated to updating technical skills. In this area, the needs have been defined by department managers together with the Human Resources departments.

Improving our understanding of English is fundamental and lessons are frequently offered to all Group employees.

The training policy is entirely translated at the local level in line with the issues of each site.

However, decentralisation does not rule out control. The Group remains vigilant and ensures that training is consistent from one site to another; practice standardisation must be carried out the right way: suitable training for each category of personnel to meet the needs of all entities.

The objectives of the training indicators implemented since 2008 are to follow up on the training budget of each entity, monitor the percentage of trained employees and managers and lastly, the nature of training organised.

Region	% of payroll dedicated to training(1) 2010/2011	% of payroll dedicated to training(1) 2009/2010
France	1.70%	1.88%
Europe (excluding France)	0.73%	1.18%
Americas	0.95%	1.00%
Asia Pacific	2.15%	0.63%

(1) Only teaching costs are included.

1.2. STRENGTHENING A COMMON CULTURE

- **Respect for cultures and standardisation of processes**

Given the growing internationalisation of the Group, the position adopted was to respect the diversity of each country and to allow local customers the possibility of retaining a local contact.

Every site therefore retained its identity, while respecting common values, which are: quest for performance and results, stimulation of creativity and sharing experience.

Through the exchange of best practices between sites, a set of rules of good practices have been defined and implemented. The standardisation of processes is fundamental to enable everyone to have a clear understanding plan and expectations.

Management uses key performance indicators, focuses its efforts on performance improvement and ensures the greatest motivation of all employees.

For this, Faiveley Transport also uses the development of the industrial excellence system based on the "Lean manufacturing" method. This method consists of seeking industrial performance, by permanent and continuous improvement and the elimination of waste. It is based on two principal concepts: just in time and automation.

The just in time tools are the production with continuous and driven flows, the rapid change of tools and the integration of logistics. The automation tools include tools to automatically stop production, the methods of elimination of causes of errors and the analysis of problems.

The rollout of these techniques is based on the human resources of the business and their integration into the areas of improvement carried out, in most cases in the field.

The following programmes deserve a special mention: QRQC and TOP5, launched in 2007, which encourage the staff to exchange ideas and develop action plans for improvement. The objective of this type of initiative is to offer solutions to the operational problems identified.

The QRQC method (Quick Response Quality Control) enables rapid solutions to be put in place for quality or other problems. The involvement of the personnel in the resolution of quality problems facilitates relations between departments and enables operators to improve their working conditions.

In the principal sites, the working day starts now with a 5-minute meeting on site. This is an opportunity to disclose problems encountered at their workstation and to propose ideas for improvement that may be rewarded on certain sites. This daily meeting enables them also to have a complete view of their results as well as the objectives to be achieved during the day.

- **Development of internal communication**

The Faiveley Transport Group also continues to rollout its various internal communication tools to enrich dialogue, promote communication among everyone and to distribute Group information.

Within the Group, information circulates up and down the organisation, via various communication tools, amongst which:
- an intranet portal accessible by all Group subsidiaries;
- a Group internal newsletter (printed in four languages including Chinese);
- an intranet network for each entity;
- a monthly information letter within certain companies;
- organisation of exchange meetings at the level of operating companies;
- organisation of annual business seminars (HR seminar, Finance seminar, Engineering seminar, etc.);
- organisation of annual meetings among the various Group managers;
- regular individual meetings organised between employees and their immediate supervisor.

D.2. Analysis and change in workforce

At the end of March 2011, the Faiveley Transport Group had 5,114 employees spread across 24 countries worldwide. The movement in employees (permanent and contract employees) during the last three years was as follows:

	31 March 2011	31 March 2010
France	1,285	1,261
Europe (excluding France)	1,914	1,861
Americas	384	331
Asia / Pacific	1,531	1,412
TOTAL FAIVELEY TRANSPORT GROUP	**5,114**	**4,865**

Analysis of workforce at 31 March 2011 by type of employment contract:

	Permanent	Fixed-term
France	1,226	59
Europe (excluding France)	1,781	133
Americas	367	17
Asia / Pacific	1,453	78
TOTAL FAIVELEY TRANSPORT GROUP	**4,827**	**287**

Of which were women at 31 March 2011:

Region	France	Europe excluding France	Americas	Asia Pacific	TOTAL
Women executives	2	–	–	–	2
Women managers	50	29	4	29	112
Women employees	131	248	46	159	584
Women operatives	61	53	22	36	172
TOTAL	**244**	**330**	**72**	**224**	**870**

Analysis of workforce by function at 31 March 2011:

Function	31 March 2011	31 March 2010
Production	2,084	2,135
Purchasing, logistics and storage	786	710
Sales and marketing	510	448
Design office	784	709
Project management	255	241
Finance	188	175
Human resources and Communications	69	62
IT	64	53
Administration	287	254
Research and development	87	80
TOTAL	**5,114**	**4,865**

Replacement and absenteeism at 31 March 2011:

Region	Replacement rate	Absenteeism rate
France	7.3%	3%
Europe (excluding France)	4.0%	3%
Americas	1.1%	2%
Asia / Pacific	9.9%	0.8%
TOTAL FAIVELEY TRANSPORT GROUP	**6.4%**	**2.2%**

2.1. ORGANISATION OF THE WORKING WEEK

In France, the reduction and organisation of the working week effective within the Group are subject to the law and various collective agreements. The steps taken to reduce the working time make overtime non significant.

In the rest of the world, the organisation of the working week and the management of overtime are governed by the law in each country concerned.

2.2. REMUNERATION POLICY

Efforts undertaken to control payroll expenses were continued, while retaining the principle of individualised remuneration, based on results and performance.

Generally speaking, the financial resources available for wage and salary increases within the Group are negotiated annually with personnel representatives on behalf of all staff.

The remuneration policy for staff is as follows:

- individual increase depending on the results and performance of each person;
- a variable annual bonus, which is given to staff and managers depending on Group and individual objectives, in all Group companies.

The management's objective is to maintain an increase in salaries throughout Group companies.

2.3. RECOGNITION OF EMPLOYEE BENEFITS

Employee benefits, mainly comprising pension commitments are recorded in the consolidated financial statements in accordance with IFRS. These amounted to €33 million, at 31 March 2011, compared to €35.3 million at 31 March 2010.

2.4. GENDER EQUALITY

Faiveley Transport is committed to promote, on a comparable basis, equality between men and women in their career development, access to training, salaries and position within the business.

Since the Law of 9 November 2010 on pension reform, in France, companies of 50 employees now must establish a plan of action to ensure gender equality at work from 1 January 2012. The Human Resources Management Group has already initiated this process at all its subsidiaries and will ensure its proper application.

D.3. Work accidents/health and safety conditions

The prevention of health and safety risks is a priority for the Faiveley Transport Group.

The various risks encountered in its business and the steps taken to deal with them are described in the chapter "A.6.3 Industrial and Environmental risks – "§ Health and Safety Risks".

The Health and Safety committees set up in France meet quarterly. During these meetings, critical situations are discussed and priorities defined. The cost of any required action is also reviewed and the result of such steps is assessed.

Not only does the Group hold these meetings in accordance with applicable local legislation, it also ensures that staff has an updated brochure containing information on health and safety measures within the company and on proper staff behaviour. Fire exit drills are conducted on a regular basis.

In addition to the steps implemented by the health and safety committees, progress groups are continuing to work within the various companies of the Group, focusing on diverse areas of interest in order to improve risk prevention and pursue the safety training policy.

The occurrence of work accidents is followed, analysed and communicated on a monthly basis to the health and safety committee, through a number of indicators. Encouraging results in terms of employee safety were registered as a result of total commitment by the Group's senior management.

	2010/2011				
Region	**France**	**Europe (excluding France)**	**Americas**	**Asia Pacific**	**TOTAL**
Number of accidents with work stoppage	36	48	0	6	90
Number of days stoppage	721	937	0	312	1,970
Number of accidents with no work stoppage	18	84	4	24	130

D.4. Corporate information concerning companies of the Faiveley Transport Group

4.1. COLLECTIVE AGREEMENTS

The French companies of the Faiveley Transport Group are all subject to the national collective agreement in the metal industry.

4.2. PERSONNEL REPRESENTATIVES

Most subsidiaries of the Faiveley Transport Group have personnel representatives.

Faiveley Transport Group has a European works council that meets twice a year, as well as a Group committee in France that meets once a year.

Faiveley Transport Group makes sure of organising the meetings at different sites every time. The objective is to enable the representatives of these committees to make the most of these events and visit other industrial sites and thus discover other practices and cultures.

4.3. EMPLOYMENT AND INTEGRATION OF DISABLED WORKERS

All Group companies for which local laws provide for employing a given percentage of disabled employees, comply with such local legal requirements.

Some of these subsidiaries employ a higher number of disabled workers than required by law.

The Human Resources Department pays particular attention to this issue and decided in 2010 to ask its staff to think about how to best broach this subject within the Company.

			Legal obligation to employ disabled workers			
Sites	**Annual legal obligation = BU * equivalent**	**Obligation met**	**Disabled people employed**	**BU * equivalent**	**Use of sheltered workshops**	**BU * equivalent**
Faiveley Transport	3	0.3	0	0	YES	0.3
Espas	3	2.5	3	1	YES	1.5
Faiveley Transport NSF	7	2.1	2.1	2	YES	0.1
Faiveley Transport Amiens	19	23.4	22.0	13.0	YES	10.4
Faiveley Transport Tours	35	26.5	22.3	19.8	YES	6.7
Faiveley Transport Gennevilliers	4	2.5	4.4	1.0	YES	1.5

(*) Beneficiary Units.

4.4. OUTSOURCING

For the Group as a whole, outsourcing for the financial year 2010/2011 was valued at €33.7 million, compared to €33.1 million in the previous year.

The Group ensures that its subsidiaries comply with the fundamental provisions of working conditions in their relationships with subcontractors.

4.5. CHARITABLE ACTIVITIES

It should be noted that the vast majority of the entities in the Faiveley Transport Group allocate a significant budget to various charitable activities. For example, the support of orphans in Cambodia.

D.5. Personnel profit-sharing

An audit of employee saving plans was carried out in France during 2008/2009, with a view to simplifying and standardising practices.

The objective was:
- to ensure that all agreements comply with legal provisions (especially since the new provisions laid down by the law on employee savings plans of 3 December 2008);
- to standardise profit-sharing calculation formulae from one site to another, while at the same time respecting the specific features of each site.

Today, the Group has put into place a Group savings plan that is common to all French sites.

In 2010, the Human Resources Department decided to continue optimising its group savings policy in the following areas:
- implementation of a Group-wide retirement savings plan;
- comparison of the services of the plan manager with others in the market, and choice of financial instruments that provide a satisfactory level of performance: the best managers and best instruments were selected within an open environment.

5.1. BONUS SCHEME AGREEMENTS

All our French subsidiaries have implemented a bonus scheme agreement.

5.2. PROFIT-SHARING AGREEMENTS

All our French subsidiaries have implemented a profit-sharing agreement.

5.3. HEALTH AND WELFARE BENEFIT PLANS

An audit of health and welfare benefit plans throughout France with a view to simplifying, standardisation and optimising costs is now complete.

Today, following the results of this audit carried out in 2008 and after informing and consulting with our personnel representatives, a single insurance provider was selected. The Group now benefits in France from standardised guarantees for all the personnel of the Group's French companies, with no distinction being made between categories of employees.

5.4. EMPLOYEE SHAREHOLDING: SHARE OPTION AND SUBSCRIPTION PLANS AND ALLOCATION OF FREE, PERFORMANCE-BASED SHARES

Faiveley Transport has set up a long-term motivation plan for employees. The objective is to enable certain employees to become shareholders in the Company and drive performance improvement.

- **Share option plan of 27 September 2005:**

Since the acquisition of Sab Wabco, Faiveley Transport has implemented a share option plan for the benefit of the Group's key managers (excluding the managers who had previously invested in Faiveley Management S.A.S.).

This share option plan, covering a maximum of 325,000 Faiveley S.A. shares, was approved by the General Meeting of 27 September 2005 and implemented by the Management Board.

In order to meet its future obligation to transfer these shares to beneficiaries, Faiveley Transport began a share buyback programme on the market at the end of 2005.
- the Management Board of 24 November 2005 awarded 221,760 options to 38 employees or managers of Faiveley Transport;
- the Management Board of 29 December 2005 awarded 6,720 new options to 1 new beneficiary;
- the Management Board of 22 June 2006 awarded 31,360 options to 6 new beneficiaries;
- the Management Board of 25 October 2006 awarded 6,720 options to 1 new beneficiary;
- the Management Board of 15 November 2006 awarded 4,480 options to 1 new beneficiary;
- the Management Board of 1 December 2006 awarded 11,200 options to 2 new beneficiaries;
- the Management Board of 2 April 2007 awarded 26,880 options to 5 new beneficiaries;
- the Management Board of 19 February 2008 awarded 26,880 options to 4 new beneficiaries;
- the Management Board of 29 March 2008 awarded 13,440 options to 3 new beneficiaries;
- the Management Board of 16 July 2008 awarded 22,600 options to 1 new beneficiary.

Options granted that were neither exercised nor cancelled cover 117,541 shares.

Options can be exercised from the second anniversary of their date of grant by the Chairman of the Management Board, subject to the presence of the beneficiary within the Faiveley Transport Group on the day of exercise and their acceptance of the option regulations. It should be noted that 198,499 options had been exercised at 31 March 2011. The securities can only be disposed of from the fourth anniversary of the grant of the purchase option. No Director of Faiveley Transport was granted any share options as part of this plan.

- **Share subscription plan of 22 September 2009:**

A share subscription plan was approved by the Annual General Meeting of 22 September 2009, for the benefit of senior executives and employees. This plan was implemented in accordance with recent regulatory developments, in particular the law of 3 December 2008 on earned income and the AFEP-MEDEF recommendations of October 2008.

This plan was put forward in accordance with agreements concluded as part of the restructuring of the share capital of Faiveley Transport carried out in December 2008 and was intended to motivate and encourage the loyalty of Directors and senior executives to the Group.

The Management Board decided at its meeting of 23 November 2009 to grant, on the same date and up to 23 November 2017, options giving right to subscribe for new shares in the Company, to be issued through a share capital increase not exceeding an overall nominal amount of €144,000, corresponding to 144,000 new shares at a par value of €1 each. The new shares will be issued at a price of €54.91.

The terms and conditions of exercise of the options were posted or provided to the beneficiaries in a document listing the option plan regulations. Since one of the beneficiaries is a member of the Management Board and therefore a senior executive, a retention obligation was specifically provided. The Supervisory Board, at its meeting of 23 October 2009, set the number of shares to be retained by senior executives concerned. It was therefore decided that at least one third of the shares exercised in excess of the number required to fund the full exercise of options allocated and the payment of tax on the corresponding capital gains, with this rule remaining applicable until the senior executives concerned have accumulated one year of their net salary in shares.

- **Plan for the allocation of performance-based shares of 13 September 2010:**

To enable the Faiveley Transport Group to motivate and retain certain employees and officers, and to optimise the structure of remuneration within the Group, the Combined General Meeting of 13 September 2010 authorised the Management Board to proceed on one or more occasions with the allocation of free ordinary shares of the Company's, existing or to be issued, for the benefit of corporate officers as defined by the Law and to certain employees of the Company and companies related to it.

These allocations will be made within the limit, established by the General Meeting, of 1% of the share capital of the Company at 13 September 2010.

- the Management Board of 3 December 2010 awarded 64,500 free shares to 38 beneficiaries;
- the Management Board of 24 February 2011 awarded 5,200 free shares to 5 new beneficiaries;

The allocation of these shares will become final only after a period of two years and after the application of performance criteria established by the Remuneration Committee. Beneficiaries will be required to comply with a mandatory retention period of two years from the date of final allocation.

The terms and conditions of these free shares were included in a set of plan rules that was sent to the beneficiaries. One of the beneficiaries being member of the Management Board and as such an officer at the date of allocation, an additional obligation to retain the shares allocated to him was defined. At its meeting on 26 November 2010, the Supervisory Board of the Company decided that the officer should retain at least 50% of the shares that were allocated by the Management Board under the new plan, beyond the period of unavailability as defined by the regulations therein. This rule shall apply until the officer holds shares of the Company, acquired in the various plans to grant stock options or free shares of the company, worth at least the equivalent of one year's net salary.

The main features of share option purchase plans, share subscription and free share allocation plans are detailed in note-E.13-Equity to the consolidated financial statements.

E. CORPORATE BODIES AND MANAGEMENT

The Supervisory Board and the Management Board of the Company comprise the people referred to in the appendix, which discloses the terms of office and the functions of the people concerned over the last five years.

E.1. Corporate governance

1.1. COMPOSITION OF THE MANAGEMENT BOARD

The Management Board comprises between three and seven members, selected or not from among the shareholders and appointed by the Supervisory Board, which confers on one of them the position of Chairman. The members of the Management Board must be individuals.

The Management Board is appointed for a period of three years by the Supervisory Board, which may replace members who die or resign, in accordance with the law.

No one may be appointed as a member of the Management Board if they do not meet the conditions of qualification required by Directors of public limited companies, if they have been held incompatible, in default or subject to a prohibition forbidding them access to these functions, if they are a statutory auditor to the company, was or are a parent or related under the conditions set by Article L. 225-224 of the Commercial Code, if they are a member of the Supervisory Board, if they already have two other positions on the Management Boards of other companies or if they chair two other public limited companies.

Every member of the Management Board must be under 65 years old. If this age limit is reached in office, the Director concerned is considered to have resigned and a new Director will be appointed as provided by the present article.

Every member of the Management Board may be linked to the company by an employment contract that remains in force during the term of office and at its expiry. Members of the Management Board may be reappointed.

In accordance with the bylaws, the Chairman who is granted the power to represent the company carries the title "Chairman and Chief Executive Officer".

There are no family relationships between members of the Management Board.

1.2. COMPOSITION OF THE SUPERVISORY BOARD

In accordance with statutory provisions, The Supervisory Board comprises at least five members and ten at the most.

The Company, having adopted the structure of a limited liability company with a Management Board and a Supervisory Board at the Annual General Meeting held on 27 September 2005, the first shareholders, i.e. the former directors of the company incorporated as a limited liability company with a Board of Directors, had been appointed for an initial period of three years. They were reappointed by the Annual General Meeting of 17 September 2008 for a period of six years in accordance with the Company's bylaws.

The Combined General Meeting of 13 September 2010 amended Article 19 of the Company's bylaws. Board members are elected for a term of three years and may be reappointed. This decision and the immediate facts apply to current terms of office.

Every shareholder, individual or corporate, may be elected as a member subject to holding at least one share in the Company (article 19 of the bylaws).

The Supervisory Board elects from among its own members a Chairman and a Vice-Chairman who must be individuals. The Chairman and Vice Chairman are in charge of calling board meetings and directing discussions.

Where a legal entity assumes the function of a member of the Supervisory Board, it is required to designate a permanent representative who is subject to the same conditions and requirements and who has the same civil and personal liability as if he/she were a member of the Board in his/her own name.

Members of the Management Board, as well as current or former statutory auditors and their parents or relatives under the laws, may not be members of the Supervisory Board.

The training and professional experience of members of the Board are very varied, all having had high level of responsibility in business.

With regard to the six independence criteria defined by the Supervisory Board in line with those recognised by Euronext, at 31 March 2011 three of the current eight members are deemed to be independent: Christian Germa, Philippe Alfroid and Maurice Marchand-Tonel.

At 31 March 2011, the Supervisory Board comprised eight members, all French citizens, Christopher Spencer has dual French and English nationalities. The average age of the members was 58 years.

At its meeting of 24 March 2011, the Supervisory Board reviewed the provisions of the Law of 27 January 2011 concerning the equal representation of women and men on boards of directors and on supervisory boards, which came into force on 28 January, including the transitional provisions stating that when the two sexes are not represented on the Supervisory Board on 28 January 2011, at least one member of that sex should be appointed at the very next ordinary general meeting to approve the appointment of members of the Supervisory Board. The Supervisory Board has decided to entrust the Remuneration Committee to make nominations to meet this obligation while specifying that the selected candidates will be qualified as independent under the benchmark adopted by the Supervisory Board on the matter. These applications will be reviewed by the Supervisory Board in a meeting on 22 July 2011. A candidate will be proposed at the General Meeting on 14 September to serve on the Supervisory Board of the Company.

F. REMUNERATION OF CORPORATE BODIES

F.1. Remuneration and directors' fees

During 2010/2011, the total remuneration, direct and indirect, of all kind received by members of corporate bodies of the Company amounted to €2,880,190.

Pursuant to Article L. 225-102-1 of the Commercial Code, we disclose the remuneration and benefits in kind of every nature received by every senior executive, during the year, from companies controlled in the sense of Article L. 233-16 of the Commercial Code:

Name	Remuneration			Directors' fees paid by Group companies	Benefits in kind
	Fixed	Variable	Deferred		
Philippe ALFROID Chairman of the Supervisory Board	–	–	–	47,200	–
François FAIVELEY Vice-Chairman of the Supervisory Board	–	–	–	20,000	–
Edmond BALLERIN Member of the Supervisory Board	–	–	–	2,000	–
Maurice MARCHAND-TONEL Member of the Supervisory Board	–	–	–	17,200	–
Christian GERMA Member of the Supervisory Board	–	–	–	23,600	–
Didier ALIX Member of the Supervisory Board	–	–	–	10,400	–
Christopher SPENCER Member of the Supervisory Board	–	–	–	18,400	–
Serge CHOUMAKER(2) Member of the Supervisory Board, Representative of employee shareholders	110,473	29,015	–	–	–
Robert JOYEUX (1) Chairman of the Management Board	609,276	366,300	–	–	Company car
Thierry BAREL(1)(2) Member of the Management Board	410,568	249,600	–	–	Company car
Erwan FAIVELEY Member of the Management Board	132,950	27,000	–	–	Housing allowance
Etienne HAUMONT(3) Member of the Management Board	655,368	150,840	–	–	Company car

(1) Robert Joyeux retired and resigned from his position as Chairman of the Management Board on 31 March 2011. Thierry Barel was appointed Chairman of the Management Board and Chief Executive Officer on 1 April 2011.

(2) At its meeting on 3 December 2010, the Management Board awarded free performance shares to certain employees and officers of the Group, including 5,000 shares to Thierry Barel and 800 shares to Serge Choumaker.

(3) Etienne Haumont resigned his duties as member of the Management Board on 1 September 2010 and resigned his position as Chief Financial Officer on 24 September 2010.

You will also find, in the appendices to this report, a detailed description of total remuneration received by directors of the Company, in accordance with AMF recommendations.

You should also decide on the total amount of Directors' fees paid to the Supervisory Board and the Management Board for the current year, which we propose to set at €220,000.

F.2. Summary of transactions in 2010/2011 in Faiveley Transport shares by senior executives and individuals referred to in Article L 621-18-2 of the Monetary and Financial Code

Director/senior executive	Financial instruments	Nature of transaction	Number of transactions	Value
Philippe ALFROID, Chairman of the Supervisory Board	Shares	Purchase	1	€10,970.72
Didier ALIX, Member of the Supervisory Board	Shares	Purchase	1	€11,035.31
Individual related to Thierry BAREL, Member of the Management Board	Shares	Purchase	3	€108,970
Quitterie BOURAYNE, Member of the Executive Committee	Shares	Exercise of stock options	2	€46,076.40
Quitterie BOURAYNE, Member of the Executive Committee	Shares	Disposal	1	€33,028
Individual related to Quitterie BOURAYNE, member of the Executive Committee	Shares	Disposal	1	€26,333
Individual related to Quitterie BOURAYNE, member of the Executive Committee	Shares	Disposal	1	€26,333
Individual related to Quitterie BOURAYNE, member of the Executive Committee	Shares	Disposal	1	€26,333
Serge CHOUMAKER, Member of the Supervisory Board	Shares	Exercise of stock options	2	€180,028.80
Serge CHOUMAKER, Member of the Supervisory Board	Shares	Disposal	2	€428,736
François Faiveley Participations, legal entity related to Erwan Faiveley, member of the Management Board	Shares	Purchase	1	€8,753,105.40
François FAIVELEY, Vice-Chairman of the Supervisory Board	Shares	Disposal	2	€9,760,735.40
Christian GERMA, Member of the Supervisory Board	Shares	Purchase	1	€11,002
Jean-Pierre GUY, Member of the Executive Committee	Shares	Disposal	7	€471,114.73
Marc JAMMOT, Member of the Executive Committee	Shares	Disposal	1	€464,182.15
Lilian LEROUX, Member of the Executive Committee	Shares	Exercise of stock options	1	€88,407
Lilian LEROUX, Member of the Executive Committee	Shares	Disposal	1	€207,900
Maurice MARCHAND TONEL, Member of the Supervisory Board	Shares	Purchase	1	€12,112
Christopher SPENCER, Member of the Supervisory Board	Shares	Purchase	1	€14,583.65
Financière Faiveley, legal entity related to Erwan Faiveley, member of the Management Board	Shares	Purchase	1	€1,007,630
François Faiveley Participations, legal entity related to Erwan Faiveley, member of the Management Board	Shares	Disposal	11	€3,123,107.71

G. BUYBACK BY THE COMPANY OF ITS OWN SHARES

At 31 March 2011, the Company held 462,777 of its own shares, representing 3.21% of its share capital. The book value of these shares was €22,426,574.64 and their market value was €23,506,689.88.

The Combined General Meeting of 13 September 2010 was called to approve, in its seventh resolution, a new share buyback programme. A description of this programme, prepared in accordance with the provisions of Article 241-2 of the AMF general regulations, is presented hereafter, as provided by Article 241-3-III of the same regulations. As a result, it will not be subject to a specific publication.

- **Objectives of the share buyback programme authorised by the Combined General Meeting of 13 September 2010**

Shares may be bought back to:
- ensure the liquidity and support the market for the Faiveley Transport share by an investment services provider via a liquidity contract that conforms to the ethics charter recognised by the Autorité des Marchés Financiers;
- grant them to employees and management of the Group according to the terms and conditions of the law (options to purchase shares, employee profit-sharing, allocation of free shares);
- cancel them by way of reduction in capital within the limits set by law;
- retain them within the limit of 5% of the capital and use them in exchange or payment, notably as part of acquisitions initiated by the Company, by way of public offer or other;
- implement all other market practice that is permitted by the Autorité des Marchés Financiers and more generally all transactions that conform to the regulations in force.

- **Maximum percentage of the share capital, maximum number and features of shares the Company is proposing to buy back and minimum purchase price**

Purchase of shares in the Company may relate to a number of shares such that the number of shares held following these purchases does not exceed 10% of the shares comprising the share capital of the Company, knowing that the percentage will apply to the capital adjusted as a function of transactions that may occur subsequent to the present Meeting.

The maximum purchase price is set at €90 per share.

The total amount allocated to the repurchase programme is €129.6 million.

Taking account of the 462,777 shares already directly or indirectly held by the Company at 31 March 2011, the maximum number of shares that the Company may acquire as part of this share buyback programme would be 977,694.

- **Term of the share buyback programme**

This authorisation remains valid for eighteen months with effect from this day, until 13 March 2012.

During the year ended 31 March 2011, 298,588 shares in Faiveley Transport were purchased by the Company.

On the occasion of the Combined General Meeting to be held on 14 September 2011, a draft resolution (tenth resolution) will be submitted to the shareholders' vote in relation to the renewal of this share buyback programme for a new period of eighteen months.

If this resolution is adopted at the next General Meeting, the authorisation granted to the Management Board will supersede that provided at the General Meeting on 13 September 2010.

H. CONTRACT TO STIMULATE TRADING OF THE FAIVELEY TRANSPORT SHARE

Since 22 September 2009, a liquidity contract has been implemented between the Company and Oddo Corporate Finance, an investment service provider that operates in full independence to stimulate the market.

The Company allocated 10,000 shares and €500,000 to Oddo as part of this contract. At 31 March 2011, Oddo Corporate Finance bought 136,768 shares and sold 138,394 on behalf of the Company.

The average price of the shares bought during the year was €60.44 and €61 for shares sold. At 31 March 2011, the Company held 4,924 shares (being 0.03% of its share capital), through the market stimulation contract, for a market value of €343,744.44, i.e. a price per share of €69.81. Oddo billed fees of €29,900 inclusive of VAT in 2010/2011 in respect of the Faiveley Transport market stimulation contract.

After having considered the report presented to you by the Statutory Auditors on this subject, your Management Board invites you to adopt the resolutions submitted to you for a vote whose text appears in appendix 5 to the present report, except of the nineteenth concerning a capital increase reserved for employees which does not appear appropriate.

APPENDICES TO THE MANAGEMENT REPORT

Appendix 1	Information on senior executives' remuneration
Appendix 2	Internal regulations of the Supervisory Board
Appendix 3	5-year financial results
Appendix 4	Chairman of the Supervisory Board's report on the operation of the Supervisory Board and on internal control within Faiveley Transport
Appendix 5	Draft resolutions submitted for approval by the General Meeting

FAIVELEY TRANSPORT GROUP CONSOLIDATED FINANCIAL STATEMENTS

AT 31 MARCH 2011

1.2.1. CONSOLIDATED BALANCE SHEET

Assets (€ thousands)	Notes	31 March 2011 Gross	31 March 2011 Amort., depr. and provision charges	31 March 2011 Net IFRS	31 March 2010 Net IFRS	31 March 2009 Net Restated(*)	31 March 2009 Net IFRS
SUBSCRIBED UNCALLED SHARE CAPITAL (I)							
Acquisition goodwill	**1**	**562,028**		**562,028**	**540,013**	**536,988**	**535,871**
Intangible assets:	**2 & 4**						
Other		71,893	26,962	44,931	52,953	48,966	48,966
Property, plant and equipment	**3 & 4**						
Land		5,545	234	5,311	5,350	5,331	5,331
Buildings		75,361	51,002	24,359	27,547	30,493	30,493
Plant and machinery		133,625	109,959	23,666	22,490	22,553	22,553
Other		43,386	33,216	10,170	10,873	10,503	10,503
Financial investments	**5**						
Shareholdings in unconsolidated subsidiaries		922	677	245	230	211	211
Shareholdings in associates		–	–	–	–	–	–
Other		5,476	776	4,700	4,147	7,066	7,494
Deferred tax assets	**6**	**29,848**		**29,848**	**31,591**	**28,909**	**28,845**
TOTAL NON-CURRENT ASSETS (II)		**928,084**	**222,826**	**705,258**	**695,194**	**691,020**	**690,267**
Inventories	**7**	149,210	15,328	133,882	134,286	135,821	136,092
Advances and prepayments on orders		5,187	–	5,187	5,740	8,185	8,185
Trade receivables	**9.1**	188,605	4,881	183,724	164,585	149,548	149,548
Other operating receivables	**9.2**	89,008	–	89,008	79,176	61,243	61,243
Other receivables	**9.3**	2,250	123	2,127	1,586	1,343	1,343
Taxation receivable		6,999	–	6,999	6,811	5,938	5,938
Current financial assets	**10**	12,618	–	12,618	7,370	3,213	3,213
Current investments	**11**	44,928	3	44,925	40,944	26,790	26,790
Cash	**11**	153,457	–	153,457	155,761	137,287	137,287
Assets of discontinued operations / held for sale		–	–	–	–	–	–
TOTAL CURRENT ASSETS (III)		**652,262**	**20,335**	**631,927**	**596,259**	**529,368**	**529,639**
TOTAL ASSETS (I + II + III)		**1,580,346**	**243,161**	**1,337,185**	**1,291,453**	**1,220,388**	**1,219,906**

(*) Restated following the adjustment to the acquisition goodwill of Ellcon National in the year of allocation.

The attached notes are an integral part of the consolidated financial statements.

Equity and liabilities (€ thousands)	Notes	31 March 2011 IFRS	31 March 2010 IFRS	31 March 2009 Restated*	31 March 2009 IFRS
Equity					
Share capital		13,942	14,121	14,073	14,073
Share premium		74,683	88,739	86,955	86,955
Translation differences		(3,396)	(14,417)	(36,034)	(36,034)
Consolidated reserves		266,715	208,411	173,595	173,595
Net profit for the year		75,683	71,119	51,483	51,483
EQUITY ATTRIBUTABLE TO HOLDERS OF PARENT COMPANY EQUITY		**427,627**	**367,973**	**290,072**	**290,072**
Minority interests					
Share of subsidiaries' equity		20,914	5,437	5,349	5,349
Share of subsidiaries' profit for the year		4,734	3,256	1,500	1,500
TOTAL MINORITY INTERESTS		**25,648**	**8,693**	**6,849**	**6,849**
TOTAL EQUITY (I)	**13**	**453,275**	**376,666**	**296,921**	**296,921**
Provisions for non-current liabilities and charges	**14.1 & 14.2**	35,529	38,812	42,423	42,423
Deferred tax liabilities	**6**	17,508	23,466	20,125	19,745
Non-current borrowings	**15**	318,516	369,422	419,984	419,982
TOTAL NON-CURRENT LIABILITIES (II)		**371,553**	**431,700**	**482,532**	**482,150**
Current provisions for liabilities and charges	**14.3**	72,138	70,941	62,787	62,882
Current borrowings	**15**	75,236	73,266	59,421	59,421
Advances and prepayments received		112,934	100,513	77,863	77,863
Operating liabilities	**17.1**	227,108	210,354	213,928	213,733
Tax payables		14,689	13,929	14,625	14,625
Other liabilities	**17.2**	10,252	14,084	12,311	12,311
Liabilities of discontinued operations/held for sale		–	–	–	–
TOTAL CURRENT LIABILITIES (III)		**512,357**	**483,087**	**440,935**	**440,835**
TOTAL EQUITY AND LIABILITIES (I + II + III)		**1,337,185**	**1,291,453**	**1,220,388**	**1,219,906**

(*) Restated following the adjustment to the acquisition goodwill of Ellcon National in the year of allocation.

The attached notes are an integral part of the consolidated financial statements.

1.2.2. CONSOLIDATED INCOME STATEMENT

(€ thousands)	Notes	31 March 2011 IFRS	31 March 2010 IFRS	31 March 2009 IFRS
SALES (EXCL. VAT)	**20**	**913,872**	**875,948**	**852,024**
Cost of sales	**21**	(652,404)	(628,917)	(609,733)
GROSS PROFIT		**261,468**	**247,031**	**242,291**
Administrative costs		(65,564)	(68,758)	(73,938)
Sales and marketing costs		(50,236)	(46,107)	(38,451)
Research and development costs		(11,638)	(11,425)	(12,864)
Other operating income	**22**	5,026	7,684	2,595
Other operating expenses	**22**	(9,274)	(9,574)	(5,135)
PROFIT FROM RECURRING OPERATIONS		**129,782**	**118,851**	**114,498**
Restructuring costs		(2,641)	(288)	(455)
Gains/(losses) on disposals of non-current assets	**23**	(475)	(316)	(256)
Other non-operating income/(expenses)				
OPERATING PROFIT		**126,666**	**118,247**	**113,787**
Amortisation and depreciation charges included in operating profit	**4**	15,503	15,976	15,364
Operating profit before amortisation and depreciation charges		**142,169**	**134,223**	**129,151**
Cost of net financial debt		(10,778)	(13,956)	(17,685)
Other finance income		25,395	34,396	42,181
Other finance costs		(28,041)	(35,978)	(38,941)
NET FINANCE EXPENSE	**24**	**(13,425)**	**(15,538)**	**(14,445)**
PROFIT BEFORE TAX		**113,241**	**102,709**	**99,342**
Income tax	**25**	(32,096)	(27,852)	(28,095)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**81,145**	**74,857**	**71,247**
Share of profit from associates		–	–	–
PROFIT FOR THE YEAR OF CONTINUING OPERATIONS		**81,145**	**74,857**	**71,247**
Profit/(loss) for the year of discontinued operations	**26**			
PROFIT FOR THE YEAR		**81,145**	**74,857**	**71,247**
Minority interests		5,462	3,738	19,764
NET PROFIT - GROUP SHARE		**75,683**	**71,119**	**51,483**
Number of shares		**13,941,934**	**14,120,822**	**12,667,172**
Earnings per share, in €:				
Earnings per share		5.43	5.04	4.06
Diluted earnings per share		5.43	5.04	4.06
Net earnings per share, in € - continuing operations				
Earnings per share		5.43	5.04	4.06
Diluted earnings per share		5.43	5.04	4.06
Net earnings per share, in € - discontinued operations				
Earnings per share		0.00	0.00	0.00
Diluted earnings per share		0.00	0.00	0.00

The calculation of net earnings per share takes account of the deduction of all treasury shares held by Faiveley Transport, being a total of 462,777 shares at 31 March 2011, 283,889 shares at 31 March 2010 and 331,195 shares at March 2009.

The attached notes are an integral part of the consolidated financial statements.

1.2.3. STATEMENT OF COMPREHENSIVE INCOME

(€ thousands)	Year 2010/2011	Year 2009/2010	Year 2008/2009
NET PROFIT FOR THE YEAR	**81,145**	**74,857**	**71,247**
Translation adjustment	9,751	21,865	(20,957)
Financial assets held for sale			
Gains/(losses) on financial hedging instruments	4,106	(3,232)	(1,256)
Actuarial differences	–	–	–
Share of gains and losses recorded directly in equity	–	–	–
Movement in revaluation reserve for non-current assets	–	–	–
Other	1,218	599	645
Tax on other elements of comprehensive income			
OTHER ELEMENTS OF COMPREHENSIVE INCOME, AFTER TAX	**15,075**	**19,232**	**(21,568)**
TOTAL COMPREHENSIVE INCOME	**96,220**	**94,089**	**49,679**
Of which:			
- **Group share**	**91,775**	**90,115**	**37,359**
- minority interests	4,445	3,974	12,320

1.2.4. CONSOLIDATED CASH FLOW STATEMENT

(€ thousands)	Notes	31 March 2011 IFRS	31 March 2010 IFRS	31 March 2009 IFRS
Cash flow from operating activities				
Profit for the year - Group share		75,683	71,119	51,483
Minority interests' stake in profit for the year		5,462	3,738	19,764
Adjustments for non-cash items:				
- Depreciation and amortisation charges		15,504	15,976	15,359
- Asset impairment (including acquistion goodwill impairment)		–	–	5
- Net movements in provisions		38	7,106	(7,406)
- Deferred tax		937	1,273	(1,565)
- Net losses/(gains) on asset disposals		475	335	256
- Grant income		(338)	(233)	(112)
- Share of profit/(loss) from associates		–	–	–
- Dilution profit		–	–	–
SELF-FINANCING CAPACITY		**97,761**	**99,314**	**77,784**
Changes in working capital	**12**	**(4,106)**	**(9,160)**	**28,757**
NET CASH GENERATED FROM OPERATING ACTIVITIES		**93,655**	**90,154**	**106,541**
Cash from investing activities:				
Purchases of intangible assets		(7,671)	(7,732)	(6,397)
Purchases of property, plant and equipment		(10,233)	(9,269)	(9,741)
Proceeds from grants		–	–	–
Proceeds from disposal of PPE and intangible assets		155	163	275
Purchase of financial investments		(1,849)	(741)	(1,073)
Proceeds from sale of financial investments		665	520	1,291
Cash and cash equivalents of acquired subsidiaries		(5,001)	–	(457,607)
Cash and cash equivalents of disposed subsidiaries		–	–	–
NET CASH USED IN INVESTING ACTIVITIES		**(23,934)**	**(17,059)**	**(473,252)**
Increase in capital or transfers		–	–	1,875
Buyback/(sale) of treasury shares		(14,235)	1,833	(43)
Movement in share premium		–	–	85,244
Other movements in equity (cash flow hedge)		5,527	(2,230)	(1,257)
Cash dividends paid to equity holders of the parent company		(17,024)	(14,069)	(4,269)
Cash dividends paid to minority interests		–	–	(590)
Proceeds from new borrowings		1,705	1,081	392,926
Repayment of borrowings		(55,584)	(30,146)	(46,980)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**(79,611)**	**(43,531)**	**426,906**
Net foreign exchange difference		13,358	17,033	(30,961)
Impact of increase/(decrease) in value of cash equivalents		(2,483)	(51)	4,256
Net increase/(decrease) in total cash		**985**	**46,546**	**33,490**
Cash and cash equivalents at start of year		191,726	145,180	111,690
CASH AND CASH EQUIVALENTS AT END OF YEAR	**11**	**192,711**	**191,726**	**145,180**

1.2.5. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€ thousands)	Capital	Share premium	Reserves	Translation adjustment	Profit for the year	Total Group share	Minority interests	Total
BALANCE AT 31 MARCH 2008	**12,191**	**2,802**	**126,708**	**(8,117)**	**36,316**	**169,900**	**116,857**	**286,757**
Allocation of 2007/2008 profit	–	–	36,316	–	(36,316)	–	–	–
Dividends paid	–	(2,060)	(2,209)	–	–	(4,269)	(590)	(4,859)
Issue of shares (stock options)	7	186	–	–	–	193	–	193
Treasury shares	–	(229)	–	–	–	(229)	–	(229)
Changes in group structure	1,875	86,256	13,978	(14,991)	–	87,118	(121,739)	(34,621)
Profit for the year	–	–	–	–	*51,483*	*51,483*	*19,764*	*71,247*
Other elements of comprehensive income	–	–	*(1,198)*	*(12,926)*	–	*(14,124)*	*(7,444)*	*(21,568)*
Total income and expenses recognised	–	–	**(1,198)**	**(12,926)**	**51,483**	**37,359**	**12,320**	**49,679**
BALANCE AT 31 MARCH 2009	**14,073**	**86,955**	**173,595**	**(36,034)**	**51,483**	**290,072**	**6,849**	**296,921**
Allocation of 2008/2009 profit	–	–	51,483	–	(51,483)	–	–	–
Dividends paid	–	–	(14,069)	–	–	(14,069)	–	(14,069)
Issue of shares (stock options)	63	1,770	–	–	–	1,833	–	1,833
Treasury shares	(15)	14	–	–	–	(1)	–	(1)
Changes in group structure	–	–	23	–	–	23	(2,130)	(2,107)
Profit for the year	–	–	–	–	*71,119*	*71,119*	*3,738*	*74,857*
Other elements of comprehensive income	–	–	*(2,621)*	*21,617*	–	*18,996*	*236*	*19,232*
Total income and expenses recognised	**0**	**0**	**(2,621)**	**21,617**	**71,119**	**90,115**	**3,974**	**94,089**
BALANCE AT 31 MARCH 2010	**14,121**	**88,739**	**208,411**	**(14,417)**	**71,119**	**367,973**	**8,693**	**376,666**
Allocation of 2009/2010 profit	–	–	71,119	–	(71,119)	–	–	–
Dividends paid	–	–	(16,899)	–	–	(16,899)	(125)	(17,024)
Issue of shares (stock options)	118	3,542	–	–	–	3,660	–	3,660
Treasury shares	(297)	(17,598)	–	–	–	(17,895)	–	(17,895)
Changes in group structure	–	–	(987)	–	–	(987)	12,635	11,648
Profit for the year	–	–	–	–	*75,683*	*75,683*	*5,462*	*81,145*
Other elements of comprehensive income	–	–	*5,071*	*11,021*	–	*16,092*	*(1,017)*	*15,075*
Total income and expense recognised	–	**-**	**5,071**	**11,021**	**75,683**	**91,775**	**4,445**	**96,220**
BALANCE AT 31 MARCH 2011	**13,942**	**74,683**	**266,715**	**(3,396)**	**75,683**	**427,627**	**25,648**	**453,275**

At 31 March 2011, Faiveley Transport held 462,777 of its own shares, being 3.21% of the share capital.

1.2.6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. Accounting information

Faiveley Transport is a French limited liability company (société anonyme) with a Management Board and a Supervisory Board. At 31 March 2011, its registered office was located at 143, boulevard Anatole France, Carrefour Pleyel, 93200 Saint Denis, France.

The consolidated financial statements are prepared under the responsibility of the Management Board and submitted for approval to the shareholders in the General Meeting.

The financial statements for 2010/2011 were approved by the Management Board at its meeting on 9 June 2011. They were presented to and reviewed by the Supervisory Board at its meeting on 9 June 2011. They will be submitted for approval to the General Meeting of shareholders on 14 September 2011.

The financial statements have been prepared on the basis that the Faiveley Transport Group operates as a going concern.

The Group's functional and presentation currency is the Euro. Figures are expressed in thousands of Euros unless indicated otherwise.

B. Highlights

1. SIGNIFICANT EVENTS

- Change to the term of office of members of the Supervisory Board:

  The Combined General Meeting of 13 September 2010 amended the bylaws of the Company and reduced the term of office of members Supervisory Board to three years.

- Changes in Group governance:

  On 1 September 2010, Guillaume Bouhours was appointed Chief Financial Officer to replace Etienne Haumont. On the same day, Etienne Haumont resigned his term of office as a member of the Management Board.

  Robert Joyeux resigned his duties as Chief Executive Officer and Chairman of the Management Board of Faiveley Transport at 31 March 2011. On 1 April 2011, Thierry Barel, previously Deputy Chief Executive Officer, was appointed Chief Executive Officer and Chairman of the Management Board. On the same day, Guillaume Bouhours was appointed as a member of the Management Board.

2. PLANS TO ALLOCATE SHARE PURCHASE/SUBSCRIPTION OPTIONS AND FREE SHARES

- Share option plan of 27 September 2005:

  The Extraordinary General meeting of Faiveley S.A. (renamed Faiveley Transport) held on 27 September 2005 approved the establishment of a share option plan to be served by the authorised buyback of 325,000 shares at a maximum purchase price of €180 (before five for one stock split).

  At 31 March 2011, 117,541 options had been allocated and had neither been cancelled nor exercised to date. Note that 198,499 purchase options have been exercised to date (see E.13.1 below).

- Share option plan of 22 September 2009:

  The Combined General Meeting of 22 September 2009 delegated to the Management Board its powers in relation to:
  - granting share subscription and/or purchase options;
  - issuing shares or marketable securities giving right to new or existing shares of the Company, with, in cases where new shares are granted, the cancellation of the pre-emption right.

  At its meeting of 23 November 2009, the Management Board decided to allocate, from that date and up to 23 November 2017, options giving right to subscribe for new shares of the Company, to be issued as part of a capital increase, for a total amount not exceeding €144,000, corresponding to 144,000 new shares of a par value of €1 each. The new shares will be issued at a price of €54.91 each.

- Free performance based share allocation plan of 13 September 2010:

  The Combined General Meeting of 13 September 2010 delegated to the Management Board its powers in relation to allocating free ordinary shares of the Company, either existing or to be issued, within the limit of 1% of the share capital on the date of this General Meeting.

  The Management Board decided, in its meetings held on 3 December 2010 and 24 February 2011, to implement the authorisation to issue free shares, for a total of 69,700 shares. The final allocation, in accordance with pre-defined performance criteria, will take place at the end of a two-year vesting period starting from the date of allocation. Thierry Barel, a beneficiary of free shares as part of this plan, must retain the shares allotted to him in his capacity as Chief Executive Officer. The Supervisory Board of the Company decided in its meeting of 26 November 2010 that the Chief Executive Officer must retain at least 50% of the shares allotted to him by the Management Board in relation to this plan, after the end of the vesting period established by plan regulations. This rule will apply until the Chief Executive Officer holds at least one year of net salary in Company shares granted within the framework of the various stock option or free share allocation plans of the Company.

3. CHANGES IN GROUP STRUCTURE

- Incorporation of Amsted Rail – Faiveley LLC, a US joint-venture between Faiveley Transport USA and Amsted Rail for the manufacture and marketing of components and braking systems for the freight market.
- Acquisition of 80% of Urs Dolder AG, a Swiss company specialised in heating devices for railway carriages.
- Acquisition of minority interests (25%) in the Czech subsidiary Faiveley Transport Lekov.
- At 31 March 2011, Espas was merged into Faiveley Transport Tours. This merger was recognised for accounting and tax purposes retrospectively, to 1 April 2010.

The Company's acquisitions and incorporations of the financial year are detailed in § D.

C. Consolidation principles and methods

1. BASIS OF PREPARATION

In application of regulation 1606/2002 of the European Union (EU), the consolidated financial statements of the Faiveley Transport Group are prepared in accordance with IFRS (International Financial Reporting Standards), as adopted by the European Union.

1.1. Changes in accounting policies due to new standards and interpretations of mandatory application for interim periods and financial years starting on or after 1 April 2010

- **Revised IFRS 3 – Business combinations:**

Revised IFRS 3 is applicable prospectively to business combinations carried out on or after 1 April 2010.

The acquisition method (also known as purchase accounting method) is confirmed, but the following main changes have been introduced:

- Modification of recognition rules for business combinations:
  - acquisition-related costs are no longer included in the acquisition cost but are recorded as an expense in the operating income statement;
  - earn-outs are initially recorded at fair value and subsequent adjustments made beyond the 12-month measurement period following the acquisition are systematically recognised through profit or loss.
- Possible choice between two goodwill measurement methods in the case of less than 100% acquisitions:
  - the so-called "partial goodwill" method, which was the only method permitted by the previous IFRS 3, which consists of determining goodwill based on the equity interest acquired;
  - the so-called "full goodwill" method, which consists of determining goodwill of a full acquisition based on the fair value of minority interests.

The choice of one method or the other is made on a transaction by transaction basis.

- **Revised IAS 27 – Consolidated and separate financial statements**

Under revised IAS 27, the consolidated financial statements of a group are presented as those of a single economic entity with two categories of owners: the owners of the parent company and the owners of non-controlling interests.

This new approach has the following consequences:

- changes in the recognition rules of acquisition and transfers of minority interests in fully-consolidated subsidiaries: these transactions are treated as transactions between the shareholders of these subsidiaries and are reflected by movements in consolidated equity between "group share" and "minority interests", as follows:
  - acquisitions of minority interests no longer generate acquisition goodwill but are reflected by a reduction in shareholders' equity – Group share;
  - disposals of minority interests or addition of new minority shareholders in the share capital of consolidated subsidiaries no longer generate any capital or dilution gains in the operating income statement, but are reflected by an increase in Group share of shareholders' equity.
- Changes in the rules regarding the recognition of sale options held by minority interests in fully consolidated subsidiaries: for options granted as from 1 January 2010, the difference between the option value at inception and the corresponding minority interests is no longer recognised as goodwill but as a decrease in Group share of shareholders' equity. The accounting treatment for subsequent changes in the value of these options (recognised through profit and loss or in equity) must be determined by the IFRS Interpretations Committee at a future date. However, the accounting treatment for put options granted before 1 January 2010 is not modified; changes in the value of these options continue to be recognised against goodwill, without time limitation.
- The share attributable to minority interests in companies with negative shareholders' equity is no longer borne by the Group, even if there is no explicit agreement for such minority shareholders to bear their share of the deficiency.

1.2. New standards and interpretation whose application is not yet mandatory

The Group did not opt for the early application of the sections of IFRS 9 – Financial instruments already published, whose date of mandatory application is 1 April 2013, subject to approval by the European Union.

The Group's financial statements were not affected by other new revised or amended standards and interpretations, which have been published but are not yet applicable.

The Group considered that the impact of these provisions could not be reliably established to date.

1.3. Other changes in accounting methods:

Presentation of CVAE *(value-added business tax)*:

At the 31 March 2010 year-end, the Group had not yet made a decision following the CNC communication of 14 January 2010 relating to the accounting treatment of the component based on value added (CVAE) of the CET tax (contribution économique territoriale) introduced in France by the 2010 Finance Act of 31 December 2009.

Following an analysis carried out by the Group, and in light of its specific features, it was decided to treat the value-added based CVAE as income tax, in order to remain consistent with the classification of similar taxes in Germany and Italy (*Gewerbesteuer* and *IRAP, respectively*). This decision was also based on a 2006 proposal by the IFRIC that specified that the term of "taxable profit" implies that a net amount should be considered, rather than a gross amount, without necessarily being identical to the accounting profit.

Pursuant to IAS 12, this election requires the recognition of deferred taxes at the rate of 1.5% at 31 March 2011 on temporary differences for:

- assets that produce economic benefits subject to the CVAE tax, whereas the consumption of added value are not deductible from added value: this was the net carrying amount of property, plant and equipment and intangible assets eligible for depreciation and amortisation at 31 December 2009;
- asset impairments and provisions that may not be deducted from the CVAE but that relate to expenses that will be deducted from the value added at a later date.

Since the CVAE tax is deductible for income tax purposes, deferred taxes are recognised at the standard rate for deferred tax assets and liabilities recognised for the CVAE, as described in the previous paragraph.

Since this is a change in the regulations, deferred taxes relating to the CVAE are recognised through profit and loss. The impact on the financial statements for the 2010/2011 financial year was a tax charge of €1,962 thousand and a net deferred tax asset of €140 thousand.

2. CONSOLIDATION SCOPE AND METHODS

The Group consolidates, using the full consolidation method, those companies over which it directly or indirectly exercises exclusive control. In accordance with IAS 27, exclusive control is deemed to be present when more than one half of the company's voting rights are held or when other means of control are in place.

Companies over which the Faiveley Transport Group exercises joint control are consolidated using the proportional consolidation method.

Companies over which the Faiveley Transport Group exercises significant influence over financial and operational policies are accounted for using the equity method. Significant influence is presumed when the Group holds more than 20% of the voting rights of a company.

Acquisitions or disposals arising during the financial year are reflected in the consolidated financial statements from the date on which effective control is transferred, unless the impact is not material to the income statement in the case of acquisitions carried out at the end of the financial year.

Intra-Group balances and transactions are eliminated for all consolidated companies.

Faiveley Transport Group companies that are consolidated are listed in Note G.1 to the consolidated financial statements. Note G.2 lists companies that were not consolidated due to their insignificant impact on the Faiveley Transport Group's financial statements.

3. USE OF ESTIMATES

In order to be able to prepare consolidated financial statements that comply with IFRS, the finance management is obliged to make certain estimates and use assumptions that it considers realistic and reasonable. These estimates and assumptions affect the carrying amount of the assets, liabilities, equity and results, and any contingent assets and liabilities, as presented at the balance sheet date. The finance management regularly reviews its estimates on the basis of the information available to it. When events and circumstances are not in line with expectations, actual results may differ from such estimates.

The main accounting methods whose application necessitates the use of estimates relate to the following items:

- **Recognition of the margin on long-term building and service contracts and the related provisions (see § C-6.1)**

Revenue from long term building and service contracts is recognised in proportion to the stage of completion of the contracts (see C-6 below). Project reviews are organised on a regular basis so that the stage of completion and finalisation of the contract can be monitored. If the project review identifies a negative gross margin, a provision is immediately raised in respect of the loss relating to the work not yet carried out.

The total estimated income and expenses in respect of the contract reflect Management's best estimate of the future benefits and obligations under the contract. The assumptions used to determine the current and future obligations take into account technological, commercial and contractual constraints measured on a contract-by contract basis.

The obligations under building contracts may result in penalties for delays in a contract's implementation schedule or an unexpected cost increase due to amendments to the project, a supplier's or subcontractor's failure to comply with its obligations or delays caused by unforeseen events or circumstances. Similarly, warranty obligations are affected by product failure rates, equipment wear and tear and the cost of actions needed to return to normal service.

Although the Group measures risks on a contract by contract basis, the actual costs resulting from the obligations associated with a contract may prove to be greater than the amount initially estimated. It may therefore prove to be necessary to re-estimate the costs to completion when a contract is still in progress or to re-estimate provisions when a contract is completed.

- **Measurement of deferred tax assets (see § C-16)**

The determination of the carrying amounts of deferred tax assets and liabilities and the amount of deferred tax assets to be recognised requires the Finance Department to exercise its judgement as to the level of future taxable profits to be taken into consideration.

- **Measurement of assets and liabilities in respect of retirement and similar benefits (see § C-15.1)**

The measurement by the Group of the assets and liabilities relating to the defined benefit schemes requires the use of statistical data and other parameters used to predict future trends. Such parameters include discount rate, expected return on plan assets, salary increase rate, staff turnover rate and mortality rate. When circumstances where actuarial assumptions prove to be significantly different from actual data subsequently observed, this could result in a substantial amendment to the amount of the charge for retirement and similar benefits, the actuarial gains and losses and the assets and liabilities stated in the balance sheet relating to these commitments.

- **Measurement of property, plant and equipment and intangible assets (see § C-9)**

Goodwill is tested for impairment each year on 31 March or more frequently if there are indications of impairment. The discounted future cash flow model used to determine the fair value of the cash generating units utilises a certain number of parameters including estimated future cash flows, discount rates and other variables, and consequently requires the exercise of judgment to a significant degree.

The assumptions used to carry out impairment tests are the same for property, plant and equipment and intangible assets. Any future deterioration in market conditions or the achievement of poor operating performances could result in the Group being unable to recover the current carrying amount of such assets.

- **Measurement of financial investments**

Details of the method used to measure financial investments are provided in § C-10.3.

- **Inventories and work-in-progress (see § C-12)**

Inventories and work-in-progress are measured at the lower of cost and net realisable value. Writedowns are calculated on the basis of an analysis of foreseeable trends in demand, technology and market conditions, the aim of which is to identify inventories and work-in-progress that are obsolete or surplus to requirements. If market conditions worsen to a greater degree than was forecast, additional writedowns of inventories and work-in-progress may prove necessary.

- **Stock-options and free shares**

Share subscription and/or purchase options as well as free shares granted to certain senior executives and employees of the Group are recognised in accordance with IFRS 2.

Options are measured at the allocation date. The fair value of options is a function of the expected life, exercise price, current price of underlying shares, expected volatility and share price. The Group uses the Black & Scholes mathematical model.

The fair value of free shares is estimated on the allocation date, specifically based on their expected life, the current price of the underlying shares, the expected volatility and the share price and takes into account the terms and conditions attached to the share allocation. The Group uses the Monte Carlo method for valuation.

This value is recognised as personnel cost between the date of grant and the end of the vesting period and offset under equity.

- **General provisions**

Details of the method used to measure other provisions for liabilities and charges are provided in C-15.2.

4. TRANSLATION METHODS

4.1. Foreign currency-denominated transactions

Foreign currency-denominated transactions are translated at the exchange rate on the date of the transaction when recorded. Any gain or loss arising from the movement in exchange rates between this date and the subsequent balance sheet date for all foreign currency denominated assets and liabilities are recorded in the income statement. Changes in the fair value of hedging instruments are recognised in accordance with the treatment described in § C-11.

4.2. Foreign currency-denominated subsidiary financial statements

Foreign currency-denominated subsidiary financial statements are prepared in the currency that is most representative of their economic environment. This currency is deemed to be their functional currency pursuant to IAS 21.

– Foreign currency-denominated subsidiary financial statements were translated into Euros using the following exchange rates:
  – closing rate for all balance sheet items, with the exception of the components of equity which continue to be translated at historical exchange rates (translation rates used on the date the subsidiary was acquired by the Group);
– average rate for the period: income statement and cash flow statement items.

Translation differences arising in respect of the profit or loss and shareholders' equity are recognised directly in shareholders' equity under the heading "Translation differences" in the case of the Group's share, with the portion attributable to third parties being recorded in minority interests.

On the disposal of a foreign subsidiary, the translation differences relating to it and recognised in shareholders' equity after 1 April 2004 are accounted for in the income statement.

Translation exchange rates used in the consolidation

	Closing rate			Average rate		
	31 March 2011	31 March 2010	31 March 2009	31 March 2011	31 March 2010	31 March 2009
Thai Baht	€0.023269	€0.022937	€0.021176	€0.024318	€0.020971	€0.020696
Swedish Krona	€0.111946	€0.102950	€0.091408	€0.107810	€0.096368	€0.099987
Czech Koruna	€0.040745	€0.039308	€0.036512	€0.040116	€0.038424	€0.039250
US Dollar	€0.703878	€0.741895	€0.751428	€0.756511	€0.707357	€0.703601
Australian Dollar	€0.728014	€0.678380	€0.520400	€0.713985	€0.600070	€0.549628
Canadian Dollar	€0.725426	€0.730620	–	€0.744807	€0.649335	–
Hong Kong Dollar	€0.090449	€0.095554	€0.096956	€0.097297	€0.091219	€0.090458
Singapore Dollar	€0.558597	€0.530166	–	€0.568693	€0.495923	–
Taiwan Dollar	€0.024068	€0.023371	–	€0.024487	€0.021727	–
Swiss Franc	€0.768965	–	–	€0.747562	–	–
Pound Sterling	€1.131606	€1.123848	€1.074345	€1.176951	€1.128969	€1.198783
Iranian Rial	€0.000069	€0.000074	–	€0.000073	€0.000070	–
Brazilian Real	€0.433689	€0.415921	€0.325024	€0.438623	€0.378526	€0.359985
Russian Rouble	€0.024823	€0.025192	–	€0.025032	€0.025167	–
Indian Rupee	€0.015787	€0.016525	€0.014839	€0.016598	€0.014908	€0.015256
Korean Won	€0.000643	€0.000656	€0.000543	€0.000658	€0.000586	€0.000585
Chinese Yuan	€0.107485	€0.108689	€0.109960	€0.112818	€0.103570	€0.102390
Polish Zloty	€0.249339	€0.258578	€0.213288	€0.251001	€0.237863	€0.266923

5. BALANCE SHEET DATE

All companies are consolidated on the basis of financial statements drawn up at 31 March 2011.

6. INCOME STATEMENT PRESENTATION

6.1. Sales revenue and cost of sales recognition

Sales arising from contracts of less than one year in duration, which primarily relate to the sale of spare parts (Customer Services), are recorded upon transfer of title, which is generally at the time of product delivery to the customer and/or completion of the provision of services.

Sales arising from contracts of more than one year in duration are recognised using the percentage of completion method in accordance with IAS 11. Percentage of completion is measured on the basis of relating actual sales billed to the total contract sales value or by relating the actual costs incurred to the total costs estimated for the contract.

The total estimated cost of completion includes direct costs (such as raw materials, labour and engineering) relating to the contracts. This includes costs already committed and future costs, including warranty costs and costs specific to the probable risks. Provision charges for losses to completion and other provisions on contracts are recorded to cost of sales in the income statement if, during the review of the contracts, it seems probable that the costs to which they relate will arise.

All changes in the conditions of contract fulfilment and all changes to margins at completion are recorded to cost of sales in the income statement in the period in which they are identified.

Warranty provisions are valued based on contract terms and an assessment of risks based on sector knowledge.

6.2. Profit from recurring operations

This is the profit before restructuring costs, gains and losses on disposals of intangible assets and property, plant and equipment and exceptional accounting adjustments.

6.3. Finance income and expenses

Finance income and expenses comprise:
- interest income and expense on the consolidated net debt, which consists of borrowings, other financial liabilities (including liabilities in respect of finance leases) and cash and cash equivalents;
- dividends received from unconsolidated equity investments;
- the effect of discounting financial provisions;
- changes in financial instruments;
- foreign exchange gains and losses on financial transactions.

6.4. Profit or loss from operations held for sale and discontinued operations

The net of tax profit or loss from operations held for sale and discontinued operations that meet the criteria of IFRS 5 is presented under a separate heading in the income statement. It includes the net profit or loss of such activities during the year and up to their date of disposal, as well as the net gain or loss on the disposal itself.

6.5. Earnings per share

Basic earnings per share is calculated based on the weighted average number of shares in circulation during the financial period. Since the shares of the consolidating entity held by it are deducted from shareholders' equity, these shares are excluded from the weighted average number of shares in circulation as from the 31 March 2008 year-end.

Diluted earnings per share is calculated based on the weighted average number of shares in circulation during the financial period, adjusted for the number of shares that would be generated by the exercise of share subscription options as per the conditions of IAS 33.45 and subsequent.

7. INTANGIBLE ASSETS

7.1. Acquisition goodwill

On each acquisition, the Group identifies and assesses the fair value of all assets and liabilities acquired, particularly intangible assets and property, plant and equipment, brands, inventories, work-in-progress and all provisions for liabilities and charges.

The unallocated difference between the cost of securities in companies acquired and consolidated and the fair value of assets and liabilities is recorded as acquisition goodwill. Where this difference is negative, it is taken directly to the income statement. When this difference is positive, it is recognised in the balance sheet.

Acquisitions of minority interests in subsidiaries that are already fully consolidated

Prior to the application of revised IAS 27, the Group had elected to recognise additional acquisition goodwill, which corresponds to the difference between acquisition cost of securities and the additional share in consolidated equity that these securities represent.

Acquisitions of minority interests are now recognised as a deduction from the Group share of shareholders' equity.

Accounting treatment of put options on minority interests

By analogy with the accounting treatment used for acquisitions of minority interests, the Group elected to use the option to recognise additional goodwill as part of the accounting treatment of put options on minority interests that existed prior to 1 April 2010. Put options granted after revised IFRS 3 and IAS 27 became applicable are recognised as a reduction from equity (see below § 10.6).

7.2. Intangible assets acquired separately or pursuant to a business combination

Intangible assets acquired separately are recorded in the balance sheet at their historical cost.

Intangible assets (primarily brands) resulting from the valuation of assets of acquired companies are recorded in the balance sheet at their fair market value, determined generally on the basis of appraisals by external experts when significant in value.

Intangible assets, other than those with indefinite useful lives, are amortised on a straight-line basis over their estimated useful lives, which are as follows:

Software:	straight line basis - 1 to 3 years
Patents:	straight line basis - 5 to 15 years
Development costs:	straight line basis over 3 years, when valued at their fair value.

7.3. Internally generated intangible assets

Research costs are immediately expensed when incurred.

Development costs on new projects are capitalised if all of the following criteria are strictly met:

- the project is clearly identifiable and its related costs are separately identified and reliably measured;
- the technical feasibility of the project has been demonstrated and the Group has the intent and financial capability to complete the project and use or sell the products derived from this project;
- it is probable that the project will yield future economic benefits for the Group.

Capitalised project development costs are amortised on a straight-line basis over 3 years.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at their acquisition cost or at their fair value when they are measured pursuant to the acquisition of a company that is consolidated. Depreciation is calculated separately for each of the assets' components that has a distinct useful life. The useful lives of the assets concerned are deemed to be as follows:

Buildings	15 to 25 years
Fixtures and improvements	10 years
Industrial machinery and equipment	5 to 20 years
Tools	3 to 5 years
Vehicles	3 to 4 years
Office equipment and furniture	3 to 10 years

Finance leases

Assets acquired under finance leases are recorded as assets when the lease agreement transfers to the Group all the risks and rewards inherent to ownership of an asset. Lease agreements for which the risks and rewards of ownership are not transferred to the Group are treated as operating leases, with corresponding lease payments expensed on a straight-line basis over the lease term.

9. IMPAIRMENT OF ASSET VALUES

Goodwill and intangible assets with indefinite useful lives are tested for impairment each year.

Intangible assets and property, plant and equipment with finite useful lives are tested for impairment as soon as there is any indication that such assets may have become impaired. Where relevant, a provision for impairment is recognised.

Impairment testing involves comparing the recoverable amount of the asset with its carrying amount. Recoverable amount is the higher of fair value less costs to sell and value in use.

Tests are carried out on the basis of Cash Generating Units (CGUs) to which these assets are associated. A CGU is a homogeneous group of assets whose continuous utilisation generates cash inflows that are largely independent of cash inflows generated by other asset groupings.

The value in use of a CGU is determined based on the present value of the estimated future cash flows to arise from these assets, within the framework of economic assumptions and operating conditions anticipated by Group executive management. The measurement carried out is based mainly on the Group's three-year plan. Cash flows beyond that timeframe are extrapolated by applying a stable growth rate.

The recoverable amount is the sum of the present value of the cash flows and the present value of the terminal residual value. The discount rate is determined using the sector's weighted average cost of capital.

When this value is less than the carrying amount of the CGU, an impairment loss, first allocated to acquisition goodwill, is recognised.

In the event of an indication of a recovery in value, this impairment loss may eventually be reversed to the extent that it does not exceed the carrying amount of the asset at the same date had it not been subject to a writedown. Impairment losses recorded on acquisition goodwill may not be reversed.

10. FINANCIAL ASSETS AND LIABILITIES

Pursuant to IAS 32 and IAS 39, financial assets and liabilities comprise operating receivables and liabilities, financial loans and debts, shareholdings in unconsolidated companies, marketable securities, borrowings and other financial liabilities and derivative financial instruments.

On initial recognition, a financial instrument is valued at its fair market value, adjusted for issue costs:

- fair value, as defined by the applicable IAS, corresponds as a general rule to transaction value, with exceptions discussed below;
- under the IAS, the term "issue costs" is used to mean all of the accessory costs directly attributable to the acquisition or implementation of the financial instruments.

In certain specific cases, e.g. loans, borrowings, operating receivables and liabilities, which are interest-free or at beneficial rates, fair value does not correspond to the fair value on initial recognition. In such cases, fair value is calculated by discounting the cash flows associated with the financial instrument, using the market rate increased by a risk premium.

At future balance sheet dates, financial assets and liabilities are recorded at either their amortised cost or fair value depending on the class of assets or liabilities to which they belong.

The accounting treatment of identified financial instruments is as follows:

10.1. Trade receivables and payables

In accordance with IAS 11, work in progress on long-term contracts is treated as trade receivables.

At each balance sheet date, the Group assesses whether there is an objective indication of impairment of a receivable. If there are objective indications of impairment in respect of assets recognised at amortised cost, the amount of the impairment loss is equal to the difference between the carrying amount of the asset and the net present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced via the use of an impairment account. The amount of the impairment loss must be recognised in the income statement.

If the amount of the impairment reduces during a subsequent accounting period, and if such reduction can be objectively linked to an event that occurred after the recognition of the impairment, the impairment loss previously recognised must be reversed to the extent that the carrying amount of the asset does not exceed the amortised cost on the date the impairment loss is reversed. Any subsequent reversal is recognised in the income statement.

In the case of trade receivables, an impairment loss is recognised when there is an objective indication (such as a probability of the debtor suffering bankruptcy or significant financial difficulties) that the Group will be unable to recover the amounts due in accordance with the contractual terms of the invoice. The carrying amount of the trade receivable is reduced via the use of a value adjustment account.

Within the framework of the factoring of trade receivables, an analysis of the risks and rewards relating to the transfer of such receivables must be conducted pursuant to IAS 39 (credit risk and interest rate risk primarily):

- if the risks and rewards are substantially transferred, the receivables are removed from the balance sheet against cash;
- if the risks and rewards are substantially retained, the receivables are maintained on the balance sheet with a corresponding liability being recognised, the operation being accounted for as a borrowing guaranteed by receivables;
- if the risks and rewards relating to a portion of the receivables are retained, as described above, the said portion of the receivables is retained on the balance sheet.

10.2. Financial receivables and loans

These financial instruments are also recorded at their amortised cost. They are subject to valuation tests, which are realised when there is an indication that their recoverable amount is less than their carrying amount, in accordance with the same principles as those described in note C.10.1. The impairment loss is recorded to the income statement as are any loss reversals.

10.3. Shareholdings in unconsolidated companies

These financial instruments are classified as assets held for sale. They are unlisted shares for which the fair value cannot be reliably determined and therefore the carrying amount at which they are recognised is their acquisition cost.

In the event of an objective indication of impairment of the financial asset (notably a significant and sustained drop in its value), the impairment loss is recognised in the income statement and may not be reversed in a subsequent period other than on the sale of the shareholding concerned.

10.4. Cash, marketable securities and cash equivalents

Cash and marketable securities reflected on the balance sheet include cash balances, bank accounts, term deposits maturing in less than three months and securities that can be traded on official exchanges. These short term instruments only comprise money market funds. They are considered by the Group as financial assets held for trading and are valued at their fair market value, with any movements in fair value recorded directly to the income statement.

In the case of highly liquid short term investments (maturity not exceeding three months) it is reasonable to assume that their fair value is equal to their carrying amount (capitalised interest included). Such items are therefore classified as cash equivalents.

10.5. Borrowings and other financial liabilities

Borrowings and other financial liabilities are stated at amortised cost.

10.6. Put options held by minority shareholders in group subsidiaries

In accordance with IAS 32, put options held by minority shareholders in Group subsidiaries are recognised as financial liabilities if associated risks and rewards are not transferred to the consolidating entity.

The amount reflected on the balance sheet corresponds to the fair value of these minority interests at the balance sheet date, measured according to the discounted future cash flow method. This value is reviewed on an annual basis.

In relation to put options granted in place before 1 April 2010, The Group opted for the recognition of financial liabilities to be offset by:

- the cancellation of corresponding minority interests;
- and an increase in goodwill allocated to the companies concerned, for the surplus.

Subsequent fair value movements are recognised as acquisition goodwill and the impact of the reversal of debt discounting is taken to the income statement.

In relation to put options granted after the revised IFRS 3 and IAS 27 became applicable, the financial liability is recognised against equity and the impact of the reversal of discounting of the liability is taken to the income statement.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to manage its exposure to movements in interest rates and in the exchange rates of foreign currencies. As part of its hedging policy, the Group uses interest rate swaps and contracts for forward purchases and sales of currencies. The Group may also use caps, floors and options.

Exchange risk

The Group operates in foreign countries and is therefore exposed to exchange risk as a result of its exposure to a number of currencies. The management of exchange risk is centralised by the parent company's Treasury department and comprises two parts:

– exchange risk management relating to tenders in foreign currencies (uncertain risk);

– exchange risk management relating to commercial contracts (certain risk).

The Group's policy is to hedge all expected future transactions in each major currency.

Interest rate risk

The Group manages its interest rate cash flow risk through the use of variable rate against fixed rate swaps or caps and tunnels. From an economic point of view, the effect of these interest rate swaps or caps is to convert variable rate borrowings into fixed rate borrowings. The Group may also use structured instruments that do not qualify for hedge accounting.

A detailed description of the exchange and interest rate risks is provided in Note E.16 to the financial statements: "Financial instruments and financial risk management".

Derivative financial instrument accounting rules

The majority of derivative instruments used by the Group qualify for accounting purposes as hedges if the derivative is eligible to be a hedging instrument and if the hedging is documented according to the principles of IAS 39. In practice, the derivative financial instruments not qualified as hedging by the Faiveley Transport Group are the following:

– foreign exchange options to cover tenders;

– structured interest rate swaps.

The derivative hedging instruments are recorded in the balance sheet at their fair value. The recognition of movements in the fair value of derivative instruments depends on the following three classifications:

- Fair value hedging: the movements in the fair value of the derivative are taken to the income statement and offset, to the extent of the effective part, the movements in fair value of the underlying asset, liability or firm commitment, also recorded in the income statement. For example, forward exchange transactions and exchange swaps that cover certain commitments and financial assets and liabilities denominated in foreign currencies are considered as fair value hedges.
- Hedging of future flows: the movements in fair value are recorded in equity for the effective part and reclassified in income when the item covered affects the latter. The ineffective part is taken directly to financial income and expense.
- Interest rate derivative instruments, as well as budget cash flow hedges are treated as future cash flow hedges.
- Transaction derivatives: the movements in the fair value of the derivative are recorded in financial income and expense.

12. INVENTORIES AND WORK-IN-PROGRESS

Inventories and work-in-progress include raw materials, work-in progress and finished products. They are stated at the lower of production cost and estimated net realisable value.

Raw materials are measured using the weighted average cost method.

Work-in-progress and finished products are measured at their production cost. The cost of inventories includes the direct raw material costs and, where relevant, the direct labour costs as well as overheads incurred in bringing the inventories to their present location and condition.

Write downs are recorded to take into account the risk of obsolescence.

13. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

IFRS requires the separate disclosure in the balance sheet of the total value of assets and liabilities of operations held for sale and discontinued without any offset. IFRS also requires the separate disclosure in the income statement of the total after tax profit realised from discontinued operations.

Non-current assets held for sale may no longer be depreciated or amortised. They are valued at the lower of their carrying amount and fair market value net of disposal costs.

14. TREASURY SHARES

Faiveley Transport parent company shares held by the subsidiaries or the parent company are deducted from Group equity, with any gains or losses on their disposal being directly allocated to equity.

15. PROVISIONS FOR LIABILITIES AND CHARGES

15.1. Provisions for retirement benefits and other personnel commitments

In accordance with the laws and practices of each country, Faiveley Transport Group participates in retirement benefit plans, social security plans, medical plans and employment termination indemnity schemes, with benefits based on several factors including seniority, wages and payments made into mandatory general plans.

These plans may be defined benefit or defined contribution plans.

15.2. Post-employment benefits – defined benefits

Following retirement, Group employees receive benefits (pension or allowance) funded by a number of Group companies. These defined benefit plans primarily concern the United Kingdom, Germany, France and Italy.

In the United Kingdom and Germany, the majority of these plans involve supplementary pension plans. In the United Kingdom, commitments are pre-financed by plan assets.

In France, employees are granted, by law, a retirement benefit for an amount that varies according to the applicable collective agreement, seniority of employment and final salary. This benefit is paid by the employer when the employee retires. The 2010 pension reform, which in particular plans to raise the retirement age from 60 to 62 years by 2018 was taken into account and treated as an actuarial gain or loss.

In Italy, the law provides for the payment by companies of the "Trattamento di Fine Rapporto" (Severance pay) or TFR for the benefit of employees. The TFR is funded by a 7.4% contribution paid by the employer and is accumulated so as to provide the employee with a lump sum when leaving the company. The impact of the TFR reforms has been integrated since 31 March 2008.

Commitments for defined benefit plans are calculated based on the "projected unit credit" actuarial method, based on actuarial assumptions (such as discount rate, rate of salary increase, life tables, etc.).

Actuarial differences (resulting from changes in assumptions or experience variances) are recognised according to the corridor method. That portion of actuarial gains or losses exceeding 10% of the higher of the value of future benefits and the value of plan assets is amortised over the average remaining employment life of participants in the plan.

- **Post-employment benefits – defined contributions**

Contributions into defined contribution plans are expensed when made.

- **Other long-term benefits**

Other long-term benefits primarily concern Germany (seniority bonuses and early retirement schemes) and France (seniority awards).

Actuarial differences for this type of plan are expensed when they arise.

The net expense for retirement commitments and similar benefits is broken down between cost of sales and fixed costs, according to the distribution of the Company workforce.

15.3. Other provisions for liabilities and charges

In accordance with IAS 37, the Faiveley Transport Group recognises a provision when an obligation to a third party arises that will result in a probable loss or liability that can be reasonably measured. The Group reports a contingent liability as an off-balance sheet commitment when there is only a possibility of a resulting loss or liability or when it cannot be reasonably measured.

These provisions are determined based on the best knowledge available concerning risks incurred and their probability of realisation and are allocated to specific risks. They cover, in particular:
- probable after sales service expenditure arising from mechanical warranties;
- probable expenditure for industrial risks covered by contractual guarantees. The measurement of the provision amount is based on such factors as the products' technical complexities, their innovative nature, geographical proximity etc;
- litigation risks;
- losses on completion for the part exceeding the amounts due by the customers;
- restructuring costs when the restructuring has been officially announced and is subject of a detailed plan or whose execution has already begun.

These provisions are valued at their present value when their impact is significant and their measurement reasonably reliable.

Provisions for guarantees are calculated according to the percentage related to the type of product manufactured and experience gained of its reliability over time. The percentages vary from 1% to 6% according to the products and are applied to the sales achieved by project.

16. DEFERRED TAX

Deferred tax reflects timing differences between the accounting and tax treatments of consolidated revenues and expenses, and the unrealised tax relating to assets and liabilities revaluations arising during business combinations.

It also reflects temporary differences arising from certain consolidation restatements, in order to standardise the different valuation methods in use at the Group's subsidiaries.

Deferred tax is calculated using the liability method that takes into account tax rules known at the end of the financial year.

Deferred tax assets arising from tax losses carried forward are recognised when it is probable that the Group will realise sufficient taxable profits in the next financial year to offset against the tax loss incurred.

Deferred tax assets that are not recognised on the acquisition of subsidiaries that had generated tax losses prior to their acquisition are recognised when the tax saving is realised, by way of a reduction to goodwill in accordance with IFRS 3.

17. SEGMENT REPORTING

In light of criteria defined by IFRS 8 and given the Group's internal organisation and the structure of the market, the Group opted for a presentation similar to IAS 14, pursuant to IFRS 8. In addition, it was deemed appropriate to retain an analysis by geographic region.

As a result, the application of IFRS 8 had no impact on the information presented at 31 March 2011 by the Group.

Segment information is presented in note E.19.

18. SPECIFIC MECHANISMS LINKED TO FAIVELEY TRANSPORT SHAREHOLDING

Managers who were shareholders of Faiveley Management ("FM Manager") and Faiveley M2 ("FM2 Managers") have undertaken the following commitments in relation to their shareholdings in Faiveley Transport.

- **FM Managers commitments**

FM Managers all agreed to a lock-up commitment of all their Faiveley Transport shares for 2 years and two thirds of their shares for 3 years from 23 December 2008.

In addition, over a period of 6 years from 23 December 2008, any disposal by a FM Manager of a block of more than 10,000 Faiveley Transport shares is subject to a Faiveley Transport pre-emption right.

- **FM2 Managers commitments**

Every FM2 manager has entered into a unilateral undertaking to sell their Faiveley Transport shares to Faiveley Transport, which may be exercised in the event they leave their duties with the Faiveley Transport Group.

FM2 managers all agreed to a lock-up commitment of all their Faiveley Transport shares for 3 years from 23 December 2008.

In addition, over a period of six years from 23 December 2008, any disposal by an FM2 manager of a block of more than 3,000 Faiveley Transport shares, is subject to a Faiveley Transport pre-emption right.

D. CHANGES IN CONSOLIDATION SCOPE

1. NEWLY-CREATED COMPANIES

On 30 July 2010, Faiveley Transport's American subsidiary, Ellcon National, and Amsted Rail, worldwide leader for the manufacture of bogy components for the freight market announced the creation of a joint venture, Amsted Rail-Faiveley LLC, based at Ellcon National's premises in Greenville, South Carolina and whose share capital is under the majority control of Faiveley Transport USA.

This new company started operating on 1 October 2010.

Faiveley Transport brings to this company a wide range of AAR (Association of American Railroads) approved brake equipment destined towards the railway freight market, as well as its engineering & project management abilities and associated industrial production methods – assets which were previously held by its American subsidiary, Ellcon-National. Ellcon-National mainly retains its passenger train activities.

Amsted Rail provides the company with access to its US and international distribution network, as well as a portfolio of braking equipment that will complement Ellcon-National's contribution.

Faiveley Transport USA initially holds 67.5% of the joint venture's share capital and is in charge of appointing the management. Amsted Rail is entitled to increasing its investment from 32.5% to a maximum of 49% by re-investing the dividends received from the joint-venture.

This transaction was fully consolidated in the Group's financial statements. Ellcon's contribution was accounted for at its net carrying amount and Amsted's contribution was measured at fair value.

2. ACQUISITIONS

2.1. New acquisitions

- **Urs Dolder AG acquisition**

In the fourth quarter of 2010/2011, Faiveley Transport announced the acquisition of 80% of Urs Dolder AG, a company based in Haegendorf, Switzerland. Dolder AG employs 19 people with annual sales of €4 million. The company produces electrical heating devices for the railway industry. The acquisition price was €2,926 thousand (CHF 3,760 thousand).

Minority interests were measured based on the net assets acquired and acquisition goodwill was recognised in the financial statements in proportion to the percentage of interest acquired.

Detailed calculation of acquisition goodwill:

	CHF thousand	€ thousands[1]
Purchase price of the shares	3,760	2,926
Minority interests	213	165
	3,973	**3,091**
Group share of shareholders' equity	1,063	827
ACQUISITION GOODWILL	**2,910**	**2,264**

(1) Converted at the foreign exchange rate on the acquisition date (24 February 2011): €0.77819.

The acquisition contract includes a call option and a put option for the 20% shareholding retained by minority shareholders. The call option may not be exercised before 31 March 2017 and the put option may not be exercised before 31 March 2015.

In accordance with revised IAS 27, a financial liability of €1.1 million was recognised in the financial statements at 31 March 2011, offset in minority interests (€0.2 million) and the Group share of shareholders' equity (€0.9 million).

- **Faiveley Transport Lekov – acquisition of minority interests**

At the end of January 2011, Faiveley Transport Group acquired the 25% minority interests in its Czech subsidiary, Faiveley Transport Lekov, its centre of expertise for pantographs and associated electromechanical equipment, for €2,355 thousand (CZK 57,022 thousand).

The Group's equity shareholding in Faiveley Transport Lekov increased from 75% at 31 March 2010 to 100% at 31 March 2011.

Detailed calculation of acquisition goodwill related to the purchase of minority interests:

(€ thousands)	
Purchase price of the shares	2,355
Portion of shareholders' equity acquired	1,979
ADDITIONAL ACQUISITION GOODWILL	**376**

At 31 March 2010, a financial liability of €2,993 thousand, relating to the put option on minority interests, was recognised in the financial statements, offset against minority interests (€1,979 thousand) and additional acquisition goodwill of €1,014 thousand.

At 31 March 2011, the acquisition of minority interests during the financial year resulted in a €638 thousand decrease in acquisition goodwill.

2.2. Summary of acquisitions during the last three financial years

Companies acquired	Main business	Acquisition date	% owned	Acquisition cost
2010/2011				
Urs Dolder AG	Manufacture of electrical heating devices	24 February 2011	80%	€2,926 thousand
2008/2009				
Faiveley Transport Gennevilliers	Design and manufacture of sintered friction materials	1 April 2008	100%	€24,400 thousand
Ellcon National Inc.	Freight brake components	31 July 2008	100%	USD 71,000 thousand

2.3. Impact of additions of new acquisitions to the group structure

	Urs Dolder AG*		
	Carrying amount	Adjustments	Fair value
Non-current assets:			
Intangible assets and property, plant and equipment	577	–	577
Deferred tax assets	–	–	–
Current assets:			
Inventories	322	–	322
Trade receivables	605	–	605
Other receivables	–	–	–
Cash	280	–	280
Non-current liabilities:			
Non-current provisions	–	–	–
Deferred tax liabilities	(135)	–	(135)
Non-current borrowing	–	–	–
Current liabilities:			
Current provisions	(79)	–	(79)
Short-term financial liabilities	–	–	–
Operating liabilities	(743)	–	(743)
Other liabilities	–	–	–
TOTAL	**827**	**–**	**827**
Of which Group share			662
Goodwill			**2,264**
Acquisition cost			**2,926**

(*) Amounts in € thousands translated at the exchange rate on the acquisition date (24 February 2011): € 0.77819.

These financial statements have been prepared in accordance with IFRS. We have not identified any material difference in the fair value of the amounts disclosed above.

Since the acquisition date, the contribution to sales has been €313 thousand and €49 thousand to net profit before minority interests.

3. DISPOSALS AND COMPANIES NO LONGER CONSOLIDATED

Nil.

4. MOVEMENT IN ACQUISITION GOODWILL WITHIN THE ALLOCATION PERIOD

None during the period.

E. Notes to the consolidated financial statements and accompanying table (in € thousands)

1. ACQUISITION GOODWILL

To expand its product range, the Faiveley Transport Group has acquired specialised companies. The main acquisitions include the Sab Wabco Group (acquired in 2004), which focuses on brake products and couplers, Faiveley Transport NSF (acquired in 2005), which specialises in air conditioning equipment, Espas (acquired in 2006), which specialises in electronic products, Nowe GmbH (acquired in 2008), which designs sanding systems, ShiJiaZhuang JiaXiang Precision Machinery Co. Ltd (of which 50% was acquired in 2007), which develops and manufactures compressors, Ellcon National (acquired in 2008), which specialises in brake components for the rail freight market, the sintered brake pads activity of Carbone Lorraine on 1 April 2008, and Urs Dolder AG (acquired in February 2011), a manufacturer of railway heating devices. Following these acquisitions, the Group allocated acquisition goodwill and intangible assets with indefinite lives to the companies concerned. The allocation of these goodwill amounts has not subsequently been amended.

At the time of Faiveley Transport's (formerly Faiveley S.A.) acquisition of the entire minority shareholdings (both direct and indirect) in its subsidiary, Faiveley Transport, goodwill was recognised in the financial statements.

The following table provides details of the unallocated goodwill as at 31 March 2011:

	Gross	Accumulated impairment losses	Net 31 March 2011	Net 31 March 2010	Net 31 March 2009
Faiveley Transport minority interests	265,778	–	265,778	265,778	265,583
Sab Wabco Group	234,004	–	234,004	219,604	219,997
Amsted Rail-Faiveley LLC / Ellcon National Inc	32,077	–	32,077	29,162	28,614
Faiveley Transport NSF	10,057	–	10,057	10,057	10,057
Nowe GmbH	7,831	–	7,831	4,757	1,978
Faiveley Transport Tours(1)	6,061	–	6,061	6,061	6,061
Urs Dolder AG	2,264		2,264	–	–
Faiveley Transport Gennevilliers	1,013	–	1,013	1,013	1,013
Shijiazhuang Jiaxiang Precision Machinery Co. Ltd	102	–	102	102	102
Others	2,841	–	2,841	3,479	2,466
TOTAL	**562,028**	**–**	**562,028**	**540,013**	**535,871**

(1) Acquisition goodwill recognised following the purchase of Espas Group.

As part of the acquisition of Sab Wabco Group in November 2004, the Sab Wabco brand was posted to intangible assets for €20 million, as well as a deferred tax asset of €5.6 million relating to this asset.

Given that:

- cash flows related to the use of the Sab Wabco brand are not identified separately on an operational level, and;
- that historically, impairment tests were not carried out individually for this brand but were combined with impairment tests on related goodwill.

It has been decided to reclassify the net carrying amount of the Sab Wabco brand, being €14.4 million, under the related acquisition goodwill heading, with the purpose of better reflecting the assets and provide consistency with the operational control of activities.

Change 2010/2011

	Gross 1 April 2010	Adjustments to opening goodwill	Acquisitions	Disposals	Impairment	Other movements	Gross 31 March 2011
Faiveley Transport minority interests	265,778	–	–	–	–	–	265,778
Sab Wabco Group	219,604	–	–	–	–	14,400[1]	234,004
Amsted- Rail / Ellcon National Inc.	29,162	–	–	–	–	2,915[2]	32,077
Faiveley Transport NSF	10,057	–	–	–	–	–	10,057
Nowe GmbH	4,757	–	–	–	–	3,074[3]	7,831
Faiveley Transport Tours	6,061	–	–	–	–	–	6,061
Urs Dolder AG	–	–	2,264	–	–	–	2,264
Faiveley Transport Gennevilliers	1,013	–	–	–	–	–	1,013
Shijiazhuang Jiaxiang Precision Machinery Co. Ltd	102	–	–	–	–	–	102
Others	3,479	–	–	–		(638)[4]	2,841
TOTAL	**540,013**	**0**	**2,264**	**0**	**0**	**19,751**	**562,028**

(1) Reclassification of the Sab Wabco brand for €20 million, less deferred tax liabilities of €5.6 million recognised on inception.

(2) This movement corresponds to the additional acquisition goodwill recognised as part of the creation of the Amsted Rail-Faiveley LLC joint venture, for €4.6 million (USD 6.3 million) and the opening translation adjustment of (€1.7 million).

(3) Increase in acquisition goodwill of Nowe GmbH following the discounting of the put option on shares held by minority interests.

(4) Restatement of the Faiveley Transport Lekov acquisition goodwill following the purchase of minority interests (25%) in January 2011.

Change 2009/2010

	Gross 1 April 2009	Adjustments to opening goodwill	Acquisitions	Disposals	Impairment test	Other movements	Gross 31 March 2010
Sab Wabco Group	219,997	–	–	–	–	(393)[1]	219,604
Faiveley Transport minority interests	265,583	195	–	–	–	–	265,778
Faiveley Transport NSF	10,057	–	–	–	–	–	10,057
Ellcon National Inc	28,614	922	–	–	–	(375)[2]	29,162
Groupe Espas	6,061	–	–	–	–	–	6,061
Nowe GmbH	1,978	–	–	–	–	2,779[3]	4,757
Faiveley Transport Gennevilliers	1,013	–	–	–	–	–	1,013
Shijiazhuang Jiaxiang Precision Machinery Co. Ltd	102	–	–	–	–	–	102
Others	2,466	–	–	–	–	1,014[3]	3,479
TOTAL	**535,871**	**1,117**	**–**	**–**	**–**	**3,025**	**540,013**

(1) This change corresponds to the recognition as a reduction in the Sab Wabco goodwill of the tax savings achieved during the year relating to the subsidiaries of the former Sab Wabco group (Faiveley Transport do Brasil, Faiveley Transport Birkenhead and Sab Wabco Investments) and which had tax losses carried forward at the time of their acquisition by the Faiveley Transport Group.

(2) Translation adjustment on acquisition goodwill of Ellcon National (USD 39,307).

(3) Increase in acquisition goodwill of Nowe GmbH and Faiveley Transport Lekov a.s. relating to the recognition of put options on shares held by minority interests.

As every year, at the time of closing the accounts, the Group reviews the value of acquisition goodwill and other non-current assets reflected on the balance sheet. This review was conducted by asset groups belonging to the same activity, based on cash flows forecast from these assets as determined within the framework of a strategic analysis, performed particularly in relation to the preparation of the budget and long-term business plan.

The assumptions concerning sales growth are based on the achievement of the budget for the coming year and provisional budgets for the following two years. These forecasts are reliable due to high visibility in our markets and our significant order book. A rate of 2.5% is used for the last year of the business plan and the subsequent two years. Beyond five years and to infinity, the growth rate used is 1.5%, which is a relatively prudent assumption in relation to the growth rates expected in this market.

The calculation of the free cash flow incorporates standard data for the entity in terms of changes in working capital requirement and capital expenditure.

The reference pre-tax WACC (Weighted Average Cost of Capital) is 12.9% for the euro zone and 12.6% for the US. It is calculated using corresponding parameters:

- Market data:
  - risk-free rate on 10-year French government bonds (3.71% for the Eurozone and 3.47% for the USD area);
  - levered beta of sector (0.65);
  - market risk premium 11.43%.
- The entity's parameters:
  - estimated cost of debt: 2.72% for the 2010/2011 year (including hedges and margins);
  - equity/debt ratio at the balance sheet date;
  - a standard tax rate 33.33%.

The carrying amount at 31 March 2011 of acquisition goodwill and other non-current assets grouped together with other net assets by activity, was compared to their value in use calculated using the aforementioned method. No impairment was recognised following this review.

Furthermore, the sensitivity analyses carried out show that the use of a discount rate 1% higher or a standard annual growth rate 1% lower than those mentioned above would not have given rise to impairment, since in all assumptions the recoverable value of the Cash Generating Units remained higher than the net carrying amount of their assets.

2. OTHER INTANGIBLE ASSETS

	Gross	Accumulated amortisation	Net 31 March 2011	Net 31 March 2010	Net 31 March 2009
Incorporation and development costs	17,573	8,928	8,645	7,498	5,043
Patents, trademarks and licences	20,639	17,374	3,265	24,572	25,949
Business goodwill	12,507		12,507	12,511	12,483
Other intangible assets	21,174	660	20,514	8,372	5,491
TOTAL	**71,893**	**26,962**	**44,931**	**52,953**	**48,966**

At 31 March 2011, intangible assets were broken down as follows:

- Incorporation and development costs: only include development costs incurred as part of research programmes and that comply with the IFRS capitalisation criteria. These costs are amortised over a maximum of 3 years.
- Patents, trademarks and licences: this heading primarily includes patents acquired as part of the acquisition of Carbone Lorraine's sintered brake business (€4,000 thousand), and computer software amortised over a maximum of 5 years.
- Goodwill: comprises the goodwill generated by the acquisition of Carbone Loraine's sintered brake business (€12,457 thousand).
- Other intangible assets: primarily includes acquisition goodwill allocated as part of the creation of the Amsted Rail-Faiveley LLC joint venture, for an amount of €8,109 thousand (K$US 11,521) and costs already incurred of €12,290 thousand, corresponding to the rollout of the Moving Forward project, a significant IT system integration programme, launched in 2007, whose objective is to optimise our organisations, industrial processes, equipment and the sharing of technical data within the Faiveley Transport Group.

Change 2010/2011

	Gross 1 April 2010	Change in Group structure	Acquisitions	Disposals	Other movements	Gross 31 March 2011
Incorporation and development costs	14,450	–	3,113(1)	–	10	17,573
Patents, trademarks and licences	41,320	–	435	(1,124)	(19,992)	20,639
Business goodwill	12,511	–	5	–	(9)	12,507
Other intangible assets	10,097	8,547	4,117	(1,142)	(445)	21,174
TOTAL	**78,378**	**8,547**	**7,670**	**(2,266)**	**(20,436)(2)**	**71,893(3)**

(1) Development costs capitalised over the period.

(2) Including impact of exchange differences of €436 thousand and reclassification of the Sab Wabco brand to acquisition goodwill for €(20,000) thousand.

(3) Of which allocated acquisition goodwill: - Brands and patents: €962 thousand
- Others: €8,109 thousand

Change 2009/2010

	Gross 1 April 2009	Change in Group structure	Acquisitions	Disposals	Other movements	Gross 31 March 2010
Incorporation and development costs	10,601	–	3,776(1)	–	73	14,450
Patents, trademarks and licences	40,601	–	598	(14)	135	41,320
Business goodwill	12,483	–	28	–	–	12,511
Other intangible assets	7,107	–	3,329	(215)	(124)	10,097
TOTAL	**70,792**	**–**	**7,731**	**(229)**	**84(2)**	**78,378(3)**

(1) Development costs capitalised over the period.

(2) Including impact of exchange differences of €270 thousand and reclassifications of €(186) thousand.

(3) Of which allocated acquisition goodwill: - Brands and patents: €20,000 thousand
- Development costs: €962 thousand

3. PROPERTY, PLANT AND EQUIPMENT

	Gross	Accumulated depreciation	Net 31 March 2011	Net 31 March 2010	Net 31 March 2009
Land	5,545	234	5,311	5,350	5,331
Buildings	75,361	51,002	24,359	27,547	30,493
Plant and machinery	133,625	109,959	23,666	22,490	22,553
Other	42,206	33,216	8,990	9,434	9,454
Under construction	1,180	–	1,180	1,439	1,049
TOTAL	**257,917**	**194,411**	**63,506**	**66,260**	**68,880**

Change 2010/2011

	Gross 1 April 2010	Under construction	Acquisitions	Disposals	Other movements	Gross 31 March 2011
Land	5,579				(34)	5,545
Buildings	76,082		549	(791)	(479)	75,361
Plant and machinery	126,556	1,223	5,415	(1,271)	1,702	133,625
Other	41,170	12	2,558	(1,532)	(2)	42,206
Under construction	1,439		879		(1,138)	1,180
TOTAL	**250,826**	**1,235**	**9,401**	**(3,594)**	**49(1)**	**257,917(2)**

(1) Including €(524) thousand related to exchange differences and €573 thousand related to reclassifications.

(2) Including fair value adjustments:

- Land	1,438
- Buildings	5,440
- Construction	2,818
- Plant and machinery	1,019
	10,715

Change 2009/2010

	Gross 1 April 2009	Change in Group structure	Acquisitions	Disposals	Other movements	Gross 31 March 2010
Land	5,556	–	–	–	23	5,579
Buildings	76,213	–	930	(513)	(548)	76,082
Plant and machinery	120,102	–	4,689	(1,281)	3,046	126,556
Other	38,542	–	2,481	(1,012)	1,159	41,170
Under construction	1,049	–	1,165	(33)	(742)	1,439
TOTAL	**241,462**	**–**	**9,265**	**(2,839)**	**2,938**(1)	**250,826**(2)

(1) Including €2,898 thousand related to exchange differences and €(40) thousand related to reclassifications.

(2) Including fair value adjustments:

	- Land	1,458
	- Buildings	5,733
	- Construction	2,818
	- Plant and machinery	1,019
		11,028

Property, plant and equipment acquired under finance leases

The following table provides an analysis of property, plant and equipment acquired under finance leases:

	Gross	Accumulated depreciation	Net 31 March 2011	Net 31 March 2010	Net 31 March 2009
Software licences	1,079	–	1,079	1,079	1,079
Land	1,088	–	1,088	925	925
Buildings	8,353	5,610	2,743	3,300	3,467
Plant and machinery	429	391	38	63	116
Transportation equipment	51	10	41	52	–
TOTAL	**11,000**	**6,011**	**4,989**	**5,229**	**5,587**

4. ACCUMULATED AMORTISATION AND DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Change 2010/2011

	As at 1 April 2010	Change in Group structure	Additions	Reductions/ other movements	As at 31 March 2011
Acquisition goodwill	–	–	–	–	–
Incorporation and development costs	6,952	–	1,975	1	8,928
Patents, trademarks and licences	16,748	–	1,703	(1,077)	17,374
Business goodwill	–	–			0
Other intangible assets	1,725	–	94	(1,159)	660
Land	229	–	5		234
Buildings	48,535	–	2,873	(406)	51,002
Plant and machinery	104,066	658	5,968	(733)	109,959
Other PPE	31,736	–	2,886	(1,406)	33,216
TOTAL	**209,991**	**658**	**15,504**	**(4,780)**(1)	**221,373**

(1) Of which translation adjustment: €130 thousand, disposal of non-current assets: (€5,198) thousand and reclassifications: €288 thousand.

Changes 2009/2010

	As at 1 April 2009	Change in Group structure	Additions	Reductions/ other movements	As at 31 March 2010
Acquisition goodwill	–	–	–	–	–
Incorporation and development costs	5,558	–	1,394	–	6,952
Patents, trademarks and licences	14,652	–	1,991	105	16,748
Business goodwill	–	–	–	–	–
Other intangible assets	1,616	–	119	(10)	1,725
Land	225	–	4	–	229
Buildings	45,720	–	3,185	(370)	48,535
Plant and machinery	97,549	–	6,216	301	104,066
Other PPE	29,088	–	3,067	(419)	31,736
TOTAL	**194,408**	**–**	**15,976**	**(393)(1)**	**209,991**

(1) Including €(2,172) thousand in respect of translation differences and €(2,565) thousand in respect of asset disposal.

5. NON-CURRENT FINANCIAL ASSETS

	Gross	Provisions	Net 31 March 2011	Net 31 March 2010	Net 31 March 2009
Investments in unconsolidated subsidiaries(1)	922	677	245	230	211
Investments in associates	–		–	–	–
Other financial investments	5,476	776	4,700	4,147	7,494
TOTAL	**6,398**	**1,453**	**4,945**	**4,377**	**7,705**

(1) Full details of unconsolidated subsidiaries are provided in note G.2.

Change 2010/2011

	Gross 1 April 2010	Change in Group structure	Acquisitions	Disposals	Other movements	Gross 31 March 2011
Investments in unconsolidated subsidiaries(1)	852	–	–	–	70	922
Investments in associates	–	–	–	–	–	0
Other financial investments	4,624	–	942	(26)	(64)	5,476
TOTAL	**5,476**	**–**	**942**	**(26)**	**6**	**6,398**

(1) Including €120 thousand in respect of translation differences and €(114) thousand in respect of reclassifications.

Change 2009/2010

	Gross 1 April 2009	Restatement of opening goodwill	Acquisitions	Disposals	Other movements	Gross 31 March 2010
Investments in unconsolidated subsidiaries	763	–	–	–	89	852
Investments in associates	–	–	–	–	–	–
Other financial investments	8,112	(430)	284	(2,914)	(428)	4,624
TOTAL	**8,875**	**(430)**	**284**	**(2,914)**	**(339)[1]**	**5,476**

(1) Including €446 thousand in respect of translation differences and €(785) thousand in respect of reclassifications.

Changes in impairment provisions against non-current financial assets:

	Impairment provisions as at 1 April	Change in Group structure	Charges to provisions	Reversals of provisions	Other movements	Impairment provisions as at 31 March
31 March 2011	**1,099**	**–**	**597**	**(305)**	**62**	**1,453**
31 March 2010	1,170	–	–	(236)	165	1,099
31 March 2009	1,497	–	100	(285)	(142)	1,170

Maturity date of other financial investments:

	1 to 5 years	More than 5 years	Total 31 March 2011	Total 31 March 2010	Total 31 March 2009
Other fixed investments	7	–	7	7	7
Loans	297	753	1,050	1,153	1,286
Guaranteed deposits and securities	725	366	1,091	655	1,415
Other financial receivables[1]	2,926	402	3,328	2,809	5,404
TOTAL	**3,955**	**1,521**	**5,476**	**4,624**	**8,112**

(1) Analysis of other financial receivables:

	31 March 2011	31 March 2010	31 March 2009
- Balance of sale financing on sale of SW KP GmbH	-	-	190
- Receivable re sale of land to Cyrella (Brazil)	2,887	2,365	1,679
- Guarantee against liabilities (Ellcon National subsidiary)	-	-	3,073
- Other	441	444	462
Total	3,328	2,809	5,404

6. DEFERRED TAX

Change 2010/2011

	As at 1 April 2010	Change in Group structure(3)	Impact on income statement	Other movements	As at 31 March 2011
Provisions for inventory impairment	1,983	–	(342)	(1)	1,640
Provisions for trade and other receivables impairment	1,468	–	257	(7)	1,718
Provisions for contracts	8,339	–	105	(92)	8,352
Provisions for restructuring	270	–	133	2	405
Provisions for retirement benefits and seniority awards	3,225	–	120	14	3,359
Other provisions and restatements	10,164	–	(880)	(38)	9,246
Percentage of completion method (IAS 11)	1,610	–	(798)	24	836
Elimination of inventory margins (Intra-Group)	1,431	–	(318)	5	1,118
Restatements under IAS 32 and IAS 39 (cash flow)	2,682	–	(947)	–	1,735
Finance leases	79	–	(75)	4	8
Tax losses carried forward	9,482	–	477	(94)	9,865
Tax losses carried forward but not recognised(1)	(9,142)	–	665	43	(8,434)
TOTAL DEFERRED TAX ASSETS (A)	**31,591**	**–**	**(1,603)**	**(140)**	**29,848**
Provisions for inventory impairment	1,191	–	(293)	(37)	861
Provisions for trade and other receivables impairment	40	–	(30)	–	10
Provisions for contracts	940	–	133	–	1,073
Provisions for retirement benefits and seniority awards	131	–	4	–	135
Other provisions and restatements	8,186	479	(839)	(57)	7,769
Regulated provisions	1,172	–	(610)	–	562
Percentage of completion method (IAS 11)	333	–	2,334	(81)	2,586
Capitalisation of development costs	2,191	–	331	–	2,522
Sab Wabco brand	5,600	–	(5,600)	–	–
Restatements under IAS 32 and IAS 39 (cash flow)	3,257	–	(1,723)	–	1,534
Finance leases	425	–	28	3	456
TOTAL DEFERRED TAX LIABILITIES (B)	**23,466**	**479**	**(6,265)**	**(172)**	**17,508**
Impact on goodwill (2) (c)			(5,600)		
Impact on income statement (a)-(b)+(c)			**(938)**		

(1) The amount of deferred tax assets corresponding to tax losses not recognised due to the risk of non-recovery.

(2) Reclassification of deferred tax assets recognised for the Sab Wabco brand to acquisition goodwill.

(3) See note D.

On the basis of the budget and three-year plan, the Group is confident as to the recovery of the net deferred tax balance of €12.3 million.

Change 2009/2010

	As at 1 April 2009	Change in Group structure and restatement of opening goodwill[3]	Impact on income statement	Other movements	As at 31 March 2010
Provisions for inventory impairment	2,118	100	(368)	133	1,983
Provisions for trade and other receivables impairment	1,284	–	173	11	1,468
Provisions for contracts	7,369	(35)	945	60	8,339
Provisions for restructuring	282	–	(6)	(6)	270
Provisions for retirement benefits and seniority awards	3,013	–	166	46	3,225
Other provisions and restatements	7,311	–	2,816	37	10,164
Percentage of completion method (IAS 11)	614	–	996	–	1,610
Elimination of inventory margins (Intra-Group)	1,126	–	282	23	1,431
Restatements under IAS 32 and IAS 39 (cash flow)	5,112	–	(2,430)	–	2,682
Finance leases	73	–	1	5	79
Tax losses carried forward	10,693	–	(1,832)	621	9,482
Tax losses carried forward but not recognised[1]	(10,150)	–	1,561	(553)	(9,142)
TOTAL DEFERRED TAX ASSETS (A)	**28,845**	**65**	**2,304**	**377**	**31,591**
Provisions for inventory impairment	634	–	540	17	1,191
Provisions for trade and other receivables impairment	31	–	9	–	40
Provisions for contracts	1,059	–	(119)	–	940
Provisions for retirement benefits and seniority awards	129	–	2	–	131
Other provisions and restatements	7,607	380	79	120	8,186
Regulated provisions	1,152	–	20	–	1,172
Percentage of completion method (IAS 11)	496	–	(177)	14	333
Capitalisation of development costs	1,529	–	662	–	2,191
Sab Wabco brand	5,600	–		–	5,600
Restatements under IAS 32 and IAS 39 (cash flow)	1,109	–	2,148	–	3,257
Finance leases	399	–	20	6	425
TOTAL DEFERRED TAX LIABILITIES (B)	**19,745**	**380**	**3,184**	**157**	**23,466**
Impact on goodwill[2] (c)			(393)		
Impact on income statement (a)-(b)+(c)			**(1,273)**		

(1) The amount of deferred tax assets corresponding to tax losses not recognised due to the risk of non-recovery.

(2) The tax savings achieved during the year, relating to the subsidiaries of the former Sab Wabco group and which had tax losses carried forward on the date of their acquisition by the Faiveley Transport Group, have been recognised as a deduction from Sab Wabco goodwill for an amount of €393 thousand.

(3) Restatement of the acquisition goodwill of Ellcon National in the year of allocation.

On the basis of the budget and three-year plan, the Group is confident as to the recovery of the net deferred tax balance of €8.1 million.

7. INVENTORIES

The accounting methods used to measure inventories (including the method for determining the cost used) are described in paragraph C.12.

	Gross	Provisions	Net 31 March 2011	Net 31 March 2010	Net 31 March 2009
Raw materials	96,523	12,647	83,876	78,080	77,967
Work-in-progress	25,316	481	24,835	22,482	25,382
Finished products	15,981	1,032	14,949	23,881	25,637
Merchandise	11,390	1,168	10,222	9,843	7,106
TOTAL EXCLUDING BUILDING CONTRACTS	**149,210**	**15,328**	**133,882**	**134,286**	**136,092**
Project work-in-progress[1]	72,866	–	72,866	60,789	38,988
TOTAL	**222,076**	**15,328**	**206,748**	**195,075**	**175,080**

(1) Includes amounts due from/to customers in respect of building contracts (see note E.8).

Movements in provisions 2010/2011:

	Provisions as at 1 April 2010	Change in Group structure	Charges to provisions	Reversals provisions used	Reversals provisions not used	Other movements	Provisions as at 31 March 2011
Raw materials	11,287		4,046	(2,527)	(87)	(72)	12,647
Work-in-progress	611		203	(108)	(231)	6	481
Finished products	1,902		57	(180)	(760)	13	1,032
Merchandise	1,227		364	(110)	(62)	(251)	1,168
TOTAL	**15,027**	**–**	**4,670**	**(2,925)**	**(1,140)**	**(304)[1]**	**15,328**

(1) Including €(18) thousand in respect of translation differences and €(286) thousand in reclassifications.

During the 2010/2011 financial year, old inventories and inventories that had become obsolete were scrapped. Provisions of 85.9% of the value of these inventories had previously been raised. The impact on the income statement for the year ended 31 March 2011 was a loss of €0.5 million.

Movements in provisions 2009/2010:

	Provisions as at 1 April 2009	Restatement of opening goodwill	Change in Group structure	Charges to provisions	Reversals provisions used	Reversals provisions not used	Other movements	Provisions as at 31 March 2010
Raw materials	11,772	271	–	2,730	(2,873)	(917)	304	11,287
Work-in-progress	442	–	–	219	(71)	(174)	195	611
Finished products	1,067	–	–	1,582	(159)	(254)	(334)	1,902
Merchandise	891	–	–	288	–	(107)	155	1,227
TOTAL	**14,172**	**271**	**–**	**4,819**	**(3,103)**	**(1,452)**	**320[1]**	**15,027**

(1) Including €320 thousand in respect of translation differences.

During the 2009/2010 financial year, old inventories and inventories that had become obsolete were scrapped. Provisions of 64.1% of the value of these inventories had previously been raised. The impact on the income statement for the year ended 31 March 2010 was a loss of €1.6 million.

8. LONG TERM CONTRACTS IN PROGRESS

"Amounts due from customers on long term contracts" and "amounts due to customers on long term contracts" are presented within the balance sheet items "other operating receivables" and "current provisions for liabilities and charges" respectively.

	31 March 2011	31 March 2010	31 March 2009
Amounts due from customers on long term contracts	77,959	64,084	43,240
Amounts due to customers on long term contracts	(758)	(614)	(561)
TOTAL	**77,201**	**63,470**	**42,679**
Work in progress on long term contracts (gross)	72,866	60,789	38,988
Work in progress on long term contracts (provisions)	–	–	–
Receivables on long term contracts	7,814	6,135	
Provisions for long term contracts	(3,479)	(3,454)	(2,835)
TOTAL	**77,201**	**63,470**	**42,679**

In the financial statements, the heading "project work in progress" is used in such a way as to recognise the good level of margin, based on the stage of completion of each project. The application of this accounting principle results in the recognition of "Work-in-progress on long term contracts" under balance sheet assets. For certain projects, the heading "Work in progress on long term contracts" is a credit balance. These credit positions were recorded in liabilities within "trade payables".

At 31 March 2011, the payables position restatement totalled €13 million, compared to €10.8 million at 31 March 2010 and €10.9 million at 31 March 2009.

9. RECEIVABLES

9.1. Trade receivables

	Gross	Provisions	Net 31 March 2011	Net 31 March 2010	Net 31 March 2009
Trade receivables	283,573	4,881	278,692	260,664	247,554
Receivables sold to a factor	(94,968)	–	(94,968)	(96,079)	(98,005)
TOTAL	**188,605**	**4,881**	**183,724**	**164,585**	**149,548**

– Movements in provisions for doubtful trade receivables

Year ended:	Opening balance	Change in Group structure	Charges to provisions	Reversals provisions used	Reversals provisions not used	Other movements	Closing balance
31 March 2011	**6,994**	**154**	**4,795**	**(4,698)**	**(2,317)**	**(47)**	**4,881**
31 March 2010	3,498	–	4,706	(273)	(1,022)	85	6,994
31 March 2009	3,634	42	1,375	(587)	(1,020)	54	3,498

A provision for doubtful trade receivables is raised when there is an objective indication of the Group's inability to recover all or part of the amounts due under the terms initially laid down in respect of the transaction. Significant financial difficulties encountered by the debtor, the probability that the debtor will become bankrupt or undergo a financial restructuring, or payment default are indications of the impairment of a receivable.

– Trade receivables (gross value)*

			Receivables due				
Trade receivables	Gross value	Receivables not yet due	Total	Less than 60 days	Between 60 and 120 days	Between 120 and 240 days	More than 240 days
31 March 2011	**188,605**	**158,770**	**29,835**	**16,989**	**3,789**	**1,799**	**7,258**
31 March 2010	171,579	140,808	30,771	14,947	5,205	2,412	8,207
31 March 2009	153,046	125,674	27,372	15,351	3,782	4,607	3,632

(*) Excluding receivables in respect of contracts recognised in accordance with the percentage of completion method.

Receivables remaining unpaid beyond the contractual due date represent, in most cases, amounts confirmed by customers but in respect of which payment is subject to the retentions identified when work was inspected.

9.2. Other receivables

	Gross	Provisions	Net 31 March 2011	Net 31 March 2010	Net 31 March 2009
Receivables on projects	72,866	–	72,866	60,789	38,988
Provisions for termination losses	(2,721)	–	(2,721)	(2,840)	(2,274)
Supplier credit notes	794	–	794	869	1,004
Social security and tax receivables	13,199	–	13,199	10,741	12,135
Prepaid expenses	3,373	–	3,373	3,482	4,864
Accrued income	1,497	–	1,497	6,135	6,526
TOTAL	**89,008**	**–**	**89,008**	**79,176**	**61,243**

9.3. Other receivables

	Gross	Provisions	Net 31 March 2011	Net 31 March 2010	Net 31 March 2009
Dividends receivable	–	–	–	92	–
Other receivables	2,250	123	2,127	1,494	1,343
Deferred charges	–	–	–	–	–
TOTAL	**2,250**	**123**	**2,127**	**1,586**	**1,343**

10. CURRENT FINANCIAL ASSETS

	31 March 2011	31 March 2010	31 March 2009
Guaranteed deposits and securities	4,323	3,934	351
Other financial receivables	369	437	188
Current accounts	307	–	–
Fair value of derivatives – Assets	7,619	2,999	2,673
TOTAL	**12,618**	**7,370**	**3,213**

11. CLOSING CASH AND CASH EQUIVALENTS (GROSS AMOUNTS)

	31 March 2011	31 March 2010	31 March 2009
Short term investments[1]	44,927	40,946	26,792
Cash	153,457	155,761	137,287
Bank overdrafts	(4,771)	(3,696)	(18,094)
Invoices factored and not guaranteed	(902)	(1,285)	(805)
TOTAL	**192,711**	**191,726**	**145,180**

(1) Certificates of deposit: €(33.6) million and short-term mutual funds (€10.5 million) meeting the criteria specified by IAS 7, which enables them to be classified as cash equivalents.

12. WORKING CAPITAL REQUIREMENT

	31 March 2011	31 March 2010	31 March 2009
Change in inventories and work in progress	(5)	4,471	(5,861)
Change in advances paid	536	2,290	(5,762)
Change in trade and other receivables	(28,018)	(30,330)	2,046
Change in advances received	12,546	21,437	7,613
Change in trade and other payables	10,835	(7,028)	30,721
TOTAL	**(4,106)**	**(9,160)**	**28,757**

13. EQUITY

13.1. Share capital

As at 31 March 2011, the Company's share capital totalled €14,404,711 divided into 14,404,711 shares of €1 each, fully paid up. Shares registered in the name of the same shareholder for at least two years have double voting rights.

As regards its capital management, the Faiveley Transport Group's main aim is to ensure the retention of a good credit risk rating and sound capital ratios in order to facilitate its activity and maximise value for its shareholders.

The Group manages its capital by ensuring that it maintains three financial ratios within the limits defined by the credit agreement relating to the reorganisation of its shareholding structure and the refinancing of its bank borrowings, i.e. the leverage ratio, the gearing ratio and total bank guarantees (see note E.15).

The Group manages its capital structure and makes adjustments depending on changes in economic conditions. With a view to maintaining or amending its capital structure, the Group may adjust the payment of dividends to its shareholders, redeem part of its capital or issue new shares. The management objectives, policies and procedures remained unchanged in 2011, 2010 and 2009.

- **Composition of the share capital**

Shares	Nominal value	31 March 2009	31 March 2010	New shares issued	Shares redeemed	31 March 2011
Ordinary	1	6,291,902	6,759,591	–	–	6,486,734
Redeemed	–	–	–	–	–	–
With preferred dividends	–	–	–	–	–	–
With double voting rights	1	8,112,809	7,645,120	–	–	7,917,977
TOTAL	**1**	**14,404,711**	**14,404,711**	**–**	**–**	**14,404,711**

- **Breakdown of share capital and voting rights**

	31 March 2011		31 March 2010		31 March 2009	
Main shareholders	% of capital	% of voting rights	% of capital	% of voting rights	% of capital	% of voting rights
François Faiveley Group and the Faiveley family	53.42	67.50	53.77	68.06	55.91	70.10
Treasury shares	3.21	–	1.97	–	2.30	–
Registered securities(1)	6.70	8.34	7.83	7.83	8.29	8.15
General public	36.67	24.16	36.43	24.11	33.50	21.75

(1) Excluding treasury shares and Faiveley Family.

- **Share purchase option plans**

Faiveley Transport implemented a share purchase option plan for the benefit of key Faiveley Transport Group management (excluding the managers who invested in Faiveley Management S.A.S.)

This share option plan, covering a maximum of 325,000 Faiveley Transport shares, was approved by the Extraordinary General Meeting of 27 September 2005 and implemented by the Management Board. The authorisation, which was granted for a period of three years, expired on 27 September 2008.

In order to meet its future obligation to transfer these shares to the plan beneficiaries, Faiveley Transport began a share buyback programme at the end of 2005.

If the share purchase options were exercised, they would result in the purchase of existing Faiveley Transport ordinary shares.

– Principal characteristics of the current share purchase option plan

Grant of shares	n°1	n°2	n°3	n°4	n°5	n°6	n°7	n°8	n°9	n°10
Date of Management Board meeting	24/11/2005	29/12/2005	22/06/2006	25/10/2006	15/11/2006	01/12/2006	02/04/2007	19/02/2008	29/03/2008	17/07/2008
Exercise price in € (*)	26.79	29.75	30.48	33.77	34.13	34.01	42.80	32.31	34.08	40.78
Date from which options can be exercised	24/11/2007	29/12/2007	22/06/2008	25/10/2008	15/11/2008	01/12/2008	02/04/2009	19/02/2010	29/03/2010	17/07/2010
Expiry date	23/11/2012	28/12/2012	21/06/2013	24/10/2013	14/11/2013	30/11/2013	01/04/2014	18/02/2015	28/03/2015	16/07/2015
Initial number of beneficiaries	38	1	6	1	1	2	5	4	3	1
Adjusted initial number	30	–	5	–	–	–	–	–	–	–
Total number of options granted	221,760	6,720	31,360	6,720	4,480	11,200	26,880	26,880	13,440	22,600
Total number of options exercised	142,109	6,720	21,320	6,720	4,480	7,330	6,720	3,100	–	–
Total number of options cancelled	47,040	–	4,480	–	–	–	–	–	4,480	–
Number of options remaining to be exercised at 31 March 2011	32,611	–	5,560	–	–	3,870	20,160	23,780	8,960	22,600
Percentage of share capital that could be created at 31 March 2010	–	–	–	–	–	–	–	–	–	–
Number of shares that may be subscribed by the members of the Management Board and Supervisory Board	6,720	–	–	–	–	–	–	–	–	–
Number of shares that could be subscribed by the members of the Executive Committee	26,880	–	–	–	–	–	–	6,720	–	22,600
Conditions of exercise	100% of options exercisable as from 24/11/2007	100% of options exercisable as from 29/12/2007	100% of options exercisable as from 22/06/2008	100% of options exercisable as from 25/10/2008	100% of options exercisable as from 15/11/2008	100% of options exercisable as from 01/12/2008	100% of options exercisable as from 02/04/2009	100% of Options exercisable as from 19/02/2010	100% of Options exercisable as from 29/03/2010	100% of options exercisable as from 17/07/2010

(*) The exercise price is equal to the average of the 20 trading days preceding the date of the Management Board meeting that decided to grant the options, less a discount of 5%.

Following the departure of certain beneficiaries since the plan was implemented by the Management Board, at 31 March 2011, 117,541 options granted to 23 beneficiaries could be exercised.

In the knowledge that the options will become exercisable from the second anniversary of the date of their granting by the Chairman of the Management Board, subject to the requirement that the holder of the options continues to be employed by the Faiveley Transport Group at the time of exercise and accepts the option scheme rules, 198,499 options have been exercised to date.

– Changes to the plan

	31 March 2011	31 March 2010	31 March 2009
Options granted	372,040	372,040	372,040
Options cancelled	56,000	51,520	51,520
Options exercised	198,499	80,425	17,920
OPTIONS OUTSTANDING	**117,541**	**240,095**	**302,600**

- **Share subscription option plans**

The Combined General Meeting of Faiveley Transport, held on 22 September 2009, authorised the Management Board to grant share purchase and/or subscription options, up to a maximum of 1% of the share capital at 22 September 2009.

The Management Board decided at its meeting of 23 November 2009 to grant, to 15 beneficiaries, options giving right to subscribe for new shares in the Company, to be issued through a share capital increase not exceeding an overall nominal amount of €144,000, corresponding to 144,000 new shares at a par value of €1 each. The new shares will be issued at a price of €54.91.

– Main features of the current share subscription plan:

Share subscription features	n°1
Management Board meeting	23/11/2009
Exercise price in €(*)	54.91
Options exercisable from	22/11/2013
Options lapse on	22/11/2017
Initial number of beneficiaries	15
Restated initial number	–
Total number of options granted	144,000
Total number of options exercised	–
Total number of options cancelled	–
Number of options outstanding 31 March 2011	144,000
Percentage of share capital at 31 March 2011 liable to be issued	1%
Number of shares liable to be subscribed by members of the Management Board and the Supervisory Board	45,500
Number of shares liable to be subscribed by members of the Executive Committee	128,500
Terms and conditions of exercise	100% of options exercisable from 22/11/2013

(*) The exercise price is the average of the last twenty trading days preceding the Management Board meeting that approved the allocation, without discount.

On the allocation date, the fair value of options granted was estimated at €2.8 million, based on the Black & Scholes mathematical model, taking account of the terms and conditions of option allocation.

Calculation assumptions:
– Faiveley Transport share price on the allocation date: €55.39;
– expected maturity of option: 5 years;
– exercise price: €54.91 per option;
– no risk rate known on allocation date: 3.4%;
– full-year volatility of the Faiveley Transport share at 23 November 2009: 33%.

Based on these features, the value of the option is €19.58. In addition, it was assumed that no dividend would be paid during the period.

- **Free performance-based share allocation plan**

Faiveley Transport's Combined General Meeting of 13 September 2010 delegated to the Management Board its powers in relation to allocating free performance-based shares, either existing or to be issued, within the limit of 1% of the share capital at 13 September 2010.

At its meetings of 3 December 2010 and 24 February 2011, the Management Board allocated a total of 69,700 existing shares to 43 beneficiaries. The allocation of the shares will be final at the end of a vesting period of two years, subject to beneficiaries remaining employed by the Group at that date and to the achievement of part or all of performance criteria. This period will be followed by a retention period of a minimum of two years.

Allocation of free performance-based shares	n°1	n°2
Date of Management Board meeting	03/12/2010	24/02/2011
Date of final allocation of the shares	03/12/2012	24/02/2013
Date shares become available	03/12/2014	24/02/2015
Initial number of beneficiaries	38	5
Adjusted initial number	–	–
Total number of shares allocated	64,500	5,200
Percentage of share capital at 31 March 2011 liable to be issued	–	–
Number of free shares granted to members of the Management Board and the Supervisory Board	5,800	–
Number of free shares granted to members of the Executive Committee	43,300	–
Terms and conditions of exercise	Determination of % of shares finally allocated at 03/12/2012	Determination of % of shares finally allocated at 03/12/2013

Free performance-based shares allocation are instruments that entitle their beneficiaries to acquire a variable number of ordinary shares of the company, based on the number of exercisable performance shares and on the performance criteria set out.

These criteria are to be tested in November 2012; they have been set out for the 2010/2011 and 2011/2012 financial years.

The criteria used to reflect wealth creation for the shareholders were:
- growth in operating profit: growth of 4% per year in profit from recurring operations, before non-recurring items; and
- cash flow generation (debt reduction): cumulative cash flow from operating activities for 2010/2011 and 2011/2012 to represent 85% of the operating profit target.

In the event performance criteria are fully achieved or exceeded, each beneficiary will receive 100% of the number of shares allocated to him/her.

In the event performance criteria are partly achieved, each beneficiary will receive a percentage of the number of shares allocated to him/her:
- criteria of operating profit growth:
  - 0% if growth is nil or negative,
  - pro-rata for average growth of between 0% and 4% per year.
- Criteria of cash flow generation:
  - 0% if generation is nil or negative,
  - pro-rata for cash flow from operating activities of between 0% and 100% of the target.

The fair value of the performance-based free share plan was estimated on the allocation date by an external consultant, using the Monte Carlo method and taking into account the terms and conditions of allocation of the shares.

Calculation assumptions:
- Model: Monte Carlo method;
- Life of options: 2 years, related to the performance condition;
- Multiple of benchmark EBIT: 9.9x;
- Opportunity cost of capital: between 6.6%[1] and 7.1%[2];
- Volatility of Faiveley Transport after 2 years, debt-free: 26.6%;
- Management turnover: 15.7%

The assessment pointed to a percentage of achievement of performance criteria of between 50.7% (with a capital cost of 6.6%) and 51.2% (with a capital cost of 7.1%).

As a result, the value of performance-based shares would be between €2,044 thousand and €2,063 thousand, based on a share price of €60.94 on 13 December 2010.

The IFRS charge (plan fair value), estimated at €2.1 million, is spread over the acquisition period of two years. The charge recognised during the financial year was €0.3 million.

- **Treasury shares**

At 31 March 2011, Faiveley Transport held 462,777 treasury shares, including 457,853 in nominative form and 4,924 through its liquidity contract.

Given the purchase cost of the Faiveley Transport shares acquired to service stock option, share subscription or free share allocation plans, the exercise prices granted and the price of the Faiveley Transport share at 31 March 2011, applied to unallocated options, the unrealised capital gain on treasury shares is €1,081 thousand.

(1) Opportunity cost of the Company share capital.
(2) Capital cost used by the Bloomberg database on 18 November 2010.

13.2. Translation differences

Translation differences comprise mainly the gains and losses resulting from the translation of the equity of subsidiaries whose functional currency is other than the euro.

Breakdown of translation differences by currency:

	TOTAL 31 March 2011	TOTAL 31 March 2010	TOTAL 31 March 2009
Thai Baht	18	11	(1)
Swedish Krona	(120)	(13,867)	(30,844)
Czech Koruna	2,139	1,454	810
US Dollar	1,627	2,179	2,268
Australian Dollar	473	459	317
Hong-Kong Dollar	(693)	(171)	(226)
Pound Sterling	(4,493)	(4,506)	(5,300)
Brazilian Real	(410)	(548)	(807)
Chinese Yuan	34	574	403
Indian Rupee	(1,306)	273	(1,587)
Korean Won	(563)	(235)	(797)
Polish Zloty	(96)	(48)	(270)
Others	(6)	8	–
TOTAL	**(3,396)**	**(14,417)**	**(36,034)**

13.3. Reserves and results

	31 March 2011	31 March 2010	31 March 2009
Legal reserve	1,440	1,440	388
Distributable reserves	(1,886)	(1,886)	(1,886)
Reserves for derivative instruments and for financial assets available for sale	(382)	(4,488)	(1,256)
Other reserves	267,363	213,345	176,349
Net profit – Group share	75,683	71,119	51,483
GROUP EQUITY	**342,218**	**279,530**	**225,078**

13.4 Minority interests

The minority interests break down as follows:

(In € millions)	2010/2011	2009/2010	2008/2009
Shanghai Faiveley Railway Technology	12,876	8,779	5,388
Amsted Rail–Faiveley LLC	12,641	–	–
Other minority interests	131	86	1,461
TOTAL	**25,648**	**8,693**	**6,849**

14. PROVISIONS FOR LIABILITIES AND CHARGES

14.1. Non-current provisions

Change 2010/2011

	As at 1 April 2010	Change in Group structure	Charges to provisions	Reversals provisions used	Reversals provisions not used	Other movements	As at 31 March 2011
Provisions for retirement and other employee benefits	35,325	–	2,226	(3,616)	(574)	(362)	32,999
Other provisions	3,487	–	101	(466)	(578)	(14)	2,530
TOTAL	**38,812**	**–**	**2,327**	**(4,082)**	**(1,152)**	**(376)(1)**	**35,529**

(1) Including exchange differences of €131 thousand and reclassifications of €(507) thousand.

Change 2009/2010

	As at 1 April 2009	Change in Group structure	Charges to provisions	Reversals provisions used	Reversals provisions not used	Other movements	As at 31 March 2010
Provisions for retirement and other employee benefits	37,087	–	1,794	(4,091)	–	535	35,325
Other provisions	5,336	–	671	(763)	(1,774)	17	3,487
TOTAL	**42,423**	**–**	**2,465**	**(4,854)**	**(1,774)**	**552(2)**	**38,812**

(2) Including exchange differences of €659 thousand and reclassifications of €(107) thousand.

14.2. Provisions for retirement benefits

(All amounts in these notes are in millions of Euros unless indicated otherwise)

Charges for the year in respect of defined contribution schemes totalled €19 million for the year to 31 March 2011, compared to €17.8 million for the year to 31 March 2010 and €12.7 million for the year to 31 March 2009.

- **Summary of provisions**

The provisions as at 31 March 2011 of those countries with the most significant commitments are shown in the following table:

	31 March 2011						
	France	Germany	United Kingdom	Other countries	Total	31 March 2010 Total	31 March 2009 Total
Post-employment benefits	5.5	14.6	6.9	3.4	30.4	32.6	34.3
Provisions for other long-term benefits	0.4	1.6	–	0.5	2.5	2.6	2.4
TOTAL	**5.9**	**16.2**	**6.9**	**3.9**	**32.9**	**35.2**	**36.7**

- **Information regarding the actuarial liability**

Movements in actuarial liability by geographic region

	31 March 2011						
	France	Germany	United Kingdom	Other countries	Total	31 March 2010 Total	31 March 2009 Total
Actuarial liability at start of period	5.7	14.5	48.3	3.9	72.4	55.4	66.2
Cost of services rendered	0.4	–	0.1	–	0.5	0.3	0.5
Interest on actuarial liability	0.3	0.6	2.8	0.2	3.9	3.7	3.8
Employee contributions	–	–	–	–	–	–	–
Benefits paid	(0.6)	(1.0)	(1.7)	(0.3)	(3.6)	(4.1)	(3.3)
Settlement of the liability	–	–	–	–	–	–	(1.1)
Scheme amendments	1.4	–	–	0.1	1.5	(0.1)	–
Acquisitions/transfers/companies joining the Group	–	–	–	–	–	0.0	0.2
Actuarial (gains)/losses	(0.1)	(0.1)	(4.7)	–	(4.8)	15.5	(5.0)
Of which experience (gains)/losses	–	*0.1*	*(2.1)*	–	*(2.0)*	*(1.1)*	*0.1*
Exchange differences	–	–	0.5	–	0.5	1.5	(5.9)
Other	–	–	–	–	–	0.1	–
ACTUARIAL LIABILITY AT END OF PERIOD	**7.1**	**14.0**	**45.3**	**3.9**	**70.3**	**72.3**	**55.4**
Of which: funded schemes	–	–	*45.3*	*0.7*	*46.0*	*48.9*	*33.9*
unfunded schemes	*7.1*	*14.0*	–	*3.2*	*24.3*	*23.4*	*21.5*

Movements in plan assets by geographic region:

	31 March 2011						
	France	Germany	United Kingdom	Other countries	Total	31 March 2010 Total	31 March 2009 Total
Fair value of assets at start of period	–	–	35.9	0.4	36.3	26.9	34.1
Employer contributions	–	–	3.2	–	3.2	2.7	3.2
Employee contributions	–	–	–	–	0.0	–	–
Benefits paid	–	–	(1.7)	–	(1.7)	(2.3)	(1.5)
Settlement of the liability	–	–	–	–	0.0	–	(0.9)
Expected financial revenue	–	–	2.0	–	2.0	1.6	1.8
Actuarial gains/(losses)	–	–	(0.1)	–	(0.1)	6.2	(5.3)
Of which experience gains/(losses)	–	–	*0.1*	–	*0.1*	*6.2*	*(5.3)*
Acquisitions/transfers/companies joining the Group	–	–	–	–	0.0	–	0.2
Exchange differences	–	–	0.1	–	0.1	1.2	(4.6)
FAIR VALUE OF ASSETS AT END OF PERIOD	**–**	**–**	**39.4**	**0.4**	**39.8**	**36.3**	**26.8**

The actual return on investments was €1.9 million in the year to 31 March 2011 (compared to a loss of €7.8 million for the year to 31 March 2010).

Contributions in respect of defined benefit schemes in the United Kingdom, Belgium and India were estimated to total €1.9 million for 2011.

The expected return on investments is estimated at €2.1 million in 2011. A one point increase in the assumed percentage rate of return would generate €0.4 million in additional income.

Provision for retirement commitments:

	31 March 2011						
	France	Germany	United Kingdom	Other countries	Total	31 March 2010 Total	31 March 2009 Total
Financial cover	7.1	14.0	5.9	3.5	30.5	36.0	28.5
Actuarial gains (losses) not recognised	(0.4)	0.6	0.4	(0.1)	0.5	(4.0)	5.2
Past service cost not recognised	(1.2)	–	–	–	(1.2)	0.1	–
Impact of capping of assets	–	–	0.6	–	0.6	0.6	0.6
NET PROVISION	**5.5**	**14.6**	**6.9**	**3.4**	**30.4**	**32.6**	**34.3**
Of which provisions for commitments	*5.5*	*14.6*	*6.9*	*3.4*	*30.4*	*32.6*	*34.3*
Of which surplus plan assets	–	–	–	–	–	–	–

Past data relating to financial cover and actuarial experience differences

	31 March 2011 Total	31 March 2010 Total	31 March 2009 Total
Discounted value of commitments	70.3	72.3	55.4
Fair value of scheme assets	39.8	36.3	26.8
FINANCIAL COVER	**30.5**	**36.0**	**28.5**
Experience gains/(losses) in relation to liabilities	*1.8*	*1.1*	*(0.1)*
Experience gains/(losses) in relation to assets	*(0.1)*	*6.2*	*(5.3)*
Experience gains/(losses) in relation to liabilities, as % of commitment	*3%*	*2%*	*0%*
Experience gains/(losses) in relation to assets, as % of Plan assets	*0%*	*17%*	*(20%)*

- **Income statement items:**

Breakdown of net pension costs

	31 March 2011						
	France	Germany	United Kingdom	Other countries	Total	31 March 2010 Total	31 March 2009 Total
Cost of services rendered	0.4	–	0.1	–	0.5	0.4	0.5
Interest on actuarial liability	0.4	0.6	2.8	0.2	4.0	3.6	3.8
Expected financial revenue	–	–	(2.0)	–	(2.0)	(1.6)	(1.7)
Amortisation of actuarial gains/losses	–	–	–	–	–	(0.1)	(0.1)
Amortisation of past service cost	–	–	–	–	–	–	–
Reduction/liquidation/transfer of the scheme	–	–	–	0.1	0.1	–	(0.5)
Impact of capping of assets	–	–	–	–	–	–	0.2
Other	–	–	–	–	–	0.1	–
NET CHARGE	**0.8**	**0.6**	**0.9**	**0.3**	**2.7**	**2.4**	**2.2**

- **Actuarial assumptions:**

The actuarial assumptions used to measure commitments take into account the demographic and financial conditions specific to each country or Group company.

Discount rates are determined by reference to the yields on AAA bonds with similar durations to those of the commitments as at the measurement date.

The assumptions used for those countries with the most significant commitments are shown in the following table:

	31 March 2011			31 March 2010			31 March 2009		
	France	Germany	United Kingdom	France	Germany	United Kingdom	France	Germany	United Kingdom
Discount rate	4.8%	4.8%	5.6%	4.6%	4.6%	5.7%	5.5%	5.5%	7.0%
Inflation rate	2.0%	2.0%	3.7%	2.0%	2.0%	3.8%	2.0%	2.0%	3.2%
Average salary increase rate	3.0%	1.6%	5.2%	3.0%	1.6%	5.3%	3.0%	3.0%	4.7%
Expected return on investments	N/A	N/A	5.2%	N/A	N/A	5.3%	N/A	N/A	5.7%

– The sensitivity of commitments at 31 March 2011 and the cost of services rendered for the next year to a 25 basis point change in the discount rate are summarised as follows:

	0.25% increase in discount rate	0.25% decrease in discount rate
Effect on the value of commitments	(2.364)	2.488
Effect on the cost of services rendered	(0.007)	0.009

– The sensitivity of commitments at 31 March 2011 and the cost of services rendered for the next year to a 25 basis point change in the salary increase rate are summarised as follows:

	0.25% increase in discount rate	0.25% decrease in discount rate
Effect on the value of commitments	0.277	(0.267)
Effect on the cost of services rendered	0.023	(0.024)

– Structure of the investment portfolio:

The expected long term rate of return on plan assets in the United Kingdom, Belgium and India was determined by taking into account the structure of the investment portfolio.

Currently the investment portfolio contains no Group securities.

The structure of the investment portfolio is as follows:

	31 March 2011	31 March 2010	31 March 2009
Shares	48.1%	45.3%	46.0%
Bonds	48.8%	52.6%	50.7%
Other assets	3.1%	2.1%	3.3%
TOTAL	**100.0%**	**100.0%**	**100.0%**

The expected return for each category of assets is as follows:

	31 March 2011
Shares	6.2%
Bonds	4.3%
Other assets	3.9%
TOTAL	**5.2%**

14.3. Current provisions

Change 2010/2011

	As at 1 April 2010	Restatement of opening goodwill	Change in Group structure	Charges to provisions	Reversals: provisions used	Reversals: provisions not used	Other movements	As at 31 March 2011
Provisions for penalties, after sales service and guarantees	67,098	–	79	38,556	(20,225)	(15,672)	(3,066)	66,770
Provision for termination losses	614	–	–	–	–	–	144	758
TOTAL CONTRACT PROVISIONS	**67,712**	**–**	**79**	**38,556**	**(20,225)**	**(15,672)**	**(2,922)**	**67,528**
Provisions for subsidiaries' risks	–	–	–	–	–	–	–	–
Provisions for restructuring	1,205	–	–	1,329	(399)	(321)	78	1,892
Provisions for other risks	2,024	–	–	783		(93)	4	2,718
TOTAL OTHER PROVISIONS	**3,229**	**–**	**–**	**2,112**	**(399)**	**(414)**	**82**	**4,610**
TOTAL	**70,941**	**–**	**79**	**40,668**	**(20,624)**	**(16,086)**	**(2,840)(1)**	**72,138**

(1) Including exchange differences of €(315) thousand and reclassifications of €(2,525) thousand.

Change 2009/2010

	As at 1 April 2009	Restatement of opening goodwill	Change in Group structure	Charges to provisions	Reversals: provisions used	Reversals: provisions not used	Other movements	As at 31 March 2010
Provisions for penalties, after sales service and guarantees	58,529	(96)	–	33,552	(17,252)	(8,308)	673	67,098
Provision for termination losses	561	–	–	–	–	–	53	614
TOTAL CONTRACT PROVISIONS	**59,090**	**(96)**	**–**	**33,552**	**(17,252)**	**(8,308)**	**726**	**67,712**
Provisions for subsidiaries' risks	–	–	–	–	–	–	–	–
Provisions for restructuring	1,938	–	–	222	(854)	(84)	(17)	1,205
Provisions for other risks	1,854	–	–	65	(56)	(50)	211	2,024
TOTAL OTHER PROVISIONS	**3,792**	**–**	**–**	**287**	**(910)**	**(134)**	**194**	**3,229**
TOTAL	**62,882**	**(96)**	**–**	**33,839**	**(18,162)**	**(8,442)**	**920(1)**	**70,941**

(1) Including exchange differences of €927 thousand and reclassifications of € (7 thousand).

Current provisions primarily relate to provisions for guarantees and Customer Services granted to our customers and litigations and claims on completed contracts. The methods underlying the recognition of these provisions are specified in Note C.15.2.

15. BORROWINGS

Under the credit agreement relating to the reorganisation of the shareholding structure and the refinancing of bank borrowings, the Faiveley Transport Group must comply with the following three financial conditions:

- leverage ratio (net consolidated borrowings/consolidated EBITDA): must not exceed 2.5 at 31 March 2011. At this date, the ratio was 1.15;
- gearing ratio (net consolidated debt/consolidated equity): must not exceed 1.50 at 31 March 2011. At this date, the ratio was 0.35;
- total bank guarantees must not exceed 22% of the order book. At 31 March 2011, they represented 15%.

Non-compliance with one of these covenants may result in the debt becoming immediately repayable.

15.1. Breakdown and maturity of non-current and current borrowings

	2010/2011					
	Current portion	Non-current portion				
	Under 1 year	1 to 5 years	Over 5 years	Total	2009/2010	2008/2009
Loans	50,452	316,605	–	367,057	420,283	97,701
Finance leases	616	774	1,081	2,471	3,062	5,306
Employee profit sharing	65	–	–	65	65	65
Various other borrowings	86	–	–	86	162	323
Guarantees, deposits and securities received	1	56	–	56	20	11
Credit current accounts	2,451	–	–	2,451	2,111	2,132
Bank overdrafts	4,771	–	–	4,771	3,696	2,186
Short term facilities (credit balance)	–	–	–	–	–	–
Invoices factored – not guaranteed	902	–	–	902	1,285	1,081
Total excluding fair value of derivatives	**59,344**	**317,435**	**1,081**	**377,861**	**430,684**	**108,805**
Fair market value of derivatives – liabilities	15,892	–	–	15,892	12,004	884
TOTAL	**75,236**	**317,435**	**1,081**	**393,752**	**442,688**	**109,689**

15.2. Breakdown by currency of non-current and current borrowings

	TOTAL 31 March 2011	TOTAL 31 March 2010	TOTAL 31 March 2009
Euro	360,526	401,890	432,667
Czech Koruna	43	1,863	2,179
US Dollar	29,529	35,023	39,512
Brazilian Real	199	250	209
Chinese Yuan	3,441	3,587	4,838
Russian Rouble	14	52	–
Indian Rupee	–	23	–
TOTAL	**393,752**	**442,688**	**479,405**

15.3. Breakdown by interest rate of non-current and current borrowings

	At 31 March 2011	At 31 March 2010	At 31 March 2009
Fixed rate borrowings	1,137	5,346	3,071
Variable rate borrowings(1)	376,724	425,337	470,679
TOTAL BORROWINGS(2)	**377,861**	**430,683**	**473,750**

(1) Before implementing hedging instruments.

(2) Excluding fair market value of derivatives – liabilities.

15.4. Calculation of net borrowings

	At 31 March 2011	At 31 March 2010	At 31 March 2009
Non-current borrowings	318,516	369,422	419,984
Current borrowings	53,672	56,280	34,867
Bank overdrafts	4,771	3,696	18,094
Invoices factored – not guaranteed	902	1,285	805
TOTAL FINANCIAL DEBT (a)	**377,861**	**430,683**	**473,750**
Receivables from investments	–	–	3,263
Loans	1,260	1,417	1,218
Guarantees, deposits and securities paid	5,411	4,586	1,766
Various other receivables	3,019	2,512	1,711
Current accounts	–	–	–
TOTAL FINANCIAL RECEIVABLES, NET (b)	**9,690**	**8,515**	**8,028**
Cash and cash equivalents (c)	198,382	196,705	164,077
NET BORROWINGS/(RECEIVABLES) (a-b-c)	**169,789**	**225,463**	**301,645**
Equity	454,992	376,666	296,921
Gearing ratio/equity	*37.2%*	*59.9%*	*101.6%*
Sales	913,872	875,948	852,024
Net borrowings/sales ratio	*18.6%*	*25.7%*	*35.4%*

In economic terms, net debt should be reduced by the value of treasury shares held for sale as part of the share purchase/subscription option and free share allocation plans. The liquidation value of these shares was €23.5 million at 31 March 2011, given the exercise prices granted for share purchase/subscription options and the year-end share price for shares not allocated to this plan. For accounting purposes, the value of treasury shares held is deducted from equity under IFRS; this amounted to €22 million at 31 March 2011, €8 million at 31 March 2010 and €9.5 million at 31 March 2009.

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

16.1. Financial instruments at 31 March 2011

		Breakdown by category					Fair value classification of instruments[1]		
At 31 March 2011	**Carrying amount**	**Non financial assets and liabilities**	**Non financial assets and liabilities**	**At fair value through profit and loss**	**Available for sale financial assets**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Shareholdings in unconsolidated subsidiaries	245	–	–	–	245	245	–	–	245
Other financial investments	4,698	–	4,698	–	–	–	–	–	–
Total non-current assets	**4,943**	**–**	**4,698**	**–**	**245**	**245**	**–**	**–**	**245**
Trade receivables	272,732	83,622	189,110	–	–	–	–	–	–
Other receivables	2,124	2,124	–	–	–	–	–	–	–
Current financial assets	4,999	–	4,999	–	–	–	–	–	–
Fair value of derivatives - Assets	7,619	–	–	7,619	–	7,619	–	7,619	
Current investments	44,925	–	–	44,925	–	44,925	44,925	–	–
Cash	153,457	–	153,457	–	–	–	–	–	–
Total current assets	**485,856**	**85,746**	**347,566**	**52,544**	**–**	**52,544**	**44,925**	**7,619**	**–**
TOTAL ASSETS	**490,799**	**85,746**	**352,264**	**52,544**	**245**	**52,789**	**44,925**	**7,619**	**245**
Non-current borrowings	318,516	–	318,516	–	–	–	–	–	–
Total non-current liabilities	**318,516**	**–**	**318,516**	**–**	**–**	**–**	**–**	**–**	**–**
Current borrowings	59,345	–	59,345	–	–	–	–	–	–
Fair value of derivatives - Liabilities	15,892	–	–	15,892	–	15,892		8,052	7,840[2]
Operating liabilities	226,953	14,967	211,986	–	–	–	–	–	–
Other liabilities	10,251	10,030	221	–	–	–	–	–	–
Total current liabilities	**312,441**	**24,997**	**271,552**	**15,892**	**–**	**15,892**	**–**	**8,052**	**7,840**
TOTAL LIABILITIES	**630,957**	**24,997**	**590,068**	**15,892**	**–**	**15,892**	**–**	**8,052**	**7,840**

(1) Revised IFRS 7 requires that fair value measurements be classified in three levels. The levels of fair value hierarchy reflect the significance of data used for the measurements:

Level 1: prices (unadjusted) of identical assets or liabilities listed on active markets.

Level 2: other data than listed prices covered by Level 1, that can be noted for the asset or liability concerned, either directly (i.e. prices) or indirectly (i.e. data derived from prices).

Level 3: data relating to the asset or liability, not based on observable market data (unobservable data).

(2) This amount corresponds to the financial commitment recognised as part of the recognition of put options held by minority shareholders in Nowe GmbH and Urs Dolder AG at 31 March 2011.

16.2. Financial instruments at 31 March 2010

		Breakdown by category					Fair value classification of instruments (1)		
At 31 March 2010	**Carrying amount**	**Non financial assets and liabilities**	**Non financial assets and liabilities**	**At fair value through profit and loss**	**Available for sale financial assets**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Shareholdings in unconsolidated subsidiaries	229	–	–	–	229	229	–	–	229
Other financial investments	4,148	–	4,148	–	–	–	–	–	–
Total non-current assets	**4,377**	**–**	**4,148**	**–**	**229**	**229**	**–**	**–**	**229**
Trade receivables	243,762	68,435	175,327	–	–	–	–	–	–
Other receivables	1,585	1,585	–	–	–	–	–	–	–
Current financial assets	4,371	–	4,371	–	–	–	–	–	–
Fair value of derivatives - Assets	2,999	–	–	2,999	–	2,999	–	2,999	
Current investments	40,944	–	–	40,944	–	40,944	40,944	–	–
Cash	155,761	–	155,761	–	–	–	–	–	–
Total current assets	**449,422**	**70,020**	**335,459**	**43,943**	**–**	**43,943**	**40,944**	**2,999**	**–**
TOTAL ASSETS	**453,799**	**70,020**	**339,607**	**43,943**	**229**	**44,172**	**40,944**	**2,999**	**229**
Non-current borrowings	369,422	–	369,422	–	–	–	–	–	–
Total non-current liabilities	**369,422**	**–**	**369,422**	**–**	**–**	**–**	**–**	**–**	**–**
Current borrowings	61,262	–	61,262	–	–	–	–	–	–
Fair value of derivatives - Liabilities	12,004	–	–	12,004	–	12,004		5,935	6,069 (2)
Operating liabilities	210,354	12,495	197,859	–	–	–	–	–	–
Other liabilities	14,084	12,470	1,614	–	–	–	–	–	–
Total current liabilities	**297,704**	**24,965**	**260,735**	**12,004**	**–**	**12,004**	**–**	**5,935**	**6,069**
TOTAL LIABILITIES	**667,126**	**24,965**	**630,157**	**12,004**	**–**	**12,004**	**–**	**5,935**	**6,069**

(1) Revised IFRS 7 requires that fair value measurements be classified in three levels. The levels of fair value hierarchy reflect the significance of data used for the measurements:

Level 1: prices (unadjusted) of identical assets or liabilities listed on active markets.

Level 2: other data than listed prices covered by Level 1, that can be noted for the asset or liability concerned, either directly (i.e. prices) or indirectly (i.e. data derived from prices).

Level 3: data relating to the asset or liability, not based on observable market data (unobservable data).

(2) This amount corresponds to the financial commitment recognised as part of the recognition of put options held by minority shareholders in Nowe and Faiveley Transport Lekov.

16.3. Financial instruments at 31 March 2009

At 31 March 2009	Carrying amount	Breakdown by category: Non-financial assets and liabilities	Loans, receivables and debts	At fair value through profit and loss	Available for sale financial assets	Fair value
Shareholdings in unconsolidated subsidiaries	210	–	–	–	210	210
Other financial investments	7,495	–	7,495	–	–	–
Total non-current assets	**7,705**	**–**	**7,495**	**–**	**210**	**210**
Trade receivables	210,791	49,108	161,683	–	–	–
Other receivables	1,343	1,343	–	–	–	–
Current financial assets	3,213	–	540	2,673	–	2,673
Current investments	26,790	–	–	26,790	–	26,790
Cash	137,287	–	137,287	–	–	–
Total current assets	**379,424**	**50,451**	**299,510**	**29,463**	**–**	**29,463**
TOTAL ASSETS	**387,129**	**50,451**	**307,005**	**29,463**	**210**	**29,673**
Non-current borrowings	419,984	–	419,984	–	–	–
Total non-current liabilities	**419,984**	**–**	**419,984**	**–**	**–**	**–**
Current borrowings	59,421	–	53,767	5,654	–	5,654
Operating liabilities	213,733	9,410	204,323	–	–	–
Other liabilities	12,311	10,343	1,968	–	–	–
Total current liabilities	**285,465**	**19,753**	**260,058**	**5,654**	**–**	**5,654**
TOTAL LIABILITIES	**705,449**	**19,753**	**680,042**	**5,654**	**–**	**5,654**

16.4. Financial risk management

The Faiveley Transport Group's cash policy is based on overall financial risk management principles and provides specific strategies for areas such as exchange risk, interest rate risk, raw materials risk, credit risk and liquidity risk.

The Group also uses derivative instruments, mainly forward purchases and sales of currencies, interest rate swaps or caps and exchange rate contracts or raw material swaps. The aim of these instruments is to manage the exchange, interest rate and raw material risks associated with the Group's activities and financing.

The Group's policy is not to enter into derivative instruments for speculative purposes.

The Supervisory Board of Faiveley Transport examines risk management principles as well as policies covering certain specific fields such as exchange risk, interest rate risk, raw materials risk, credit risk and liquidity risk. These policies are summarised below.

The market values of interest rate and foreign exchange derivative instruments were measured based on year-end market prices. They were appraised by an independent expert.

16.5. Market risks

a) Exchange risk

The Group operates in foreign countries and is therefore exposed to exchange risk as a result of its exposure to a number of currencies.

The major currencies concerned are the Chinese Yuan, the American Dollar, the Pound Sterling, the Czech Koruna and the Swedish Krona.

The management of exchange risk on commercial contracts is centralised by the parent company's Treasury department and comprises two parts: the certain and the uncertain risk.

- **Exchange risk management relating to tenders in foreign currencies (uncertain risk):**

The Faiveley Transport Group is required to submit tenders denominated in foreign currencies. The Group's hedging policy is not to use financial instruments to cover during the offer phase, unless when specifically decided by Management. The aim is to manage the exchange risk through normal commercially available means. If necessary, the Group Treasury department uses mainly exchange options and export insurance contracts.

- **Exchange risk management relating to commercial contracts (certain risk):**

Commercial contracts in foreign currencies (most often successful tenders) are hedged by the Group Treasury Department from contractual commitment. The instruments used primarily include forward purchases and sales. Treasury may also use swaps and options.

The Group's policy is to hedge all future transactions expected in each major currency. Various flows are hedged against, at a minimum of 80%, based on the annual budget.

- **Forward sales hedging financial and commercial transactions as at 31 March 2011**

	Nominal value		
	(€ thousands)	(local currency thousands)	Fair value (€ thousands)
Dollar US	55,425	74,946	2,103
Pound Sterling	32,041	27,688	1,324
Chinese Yuan	26,872	239,202	829
Singapore Dollar	20,678	28,767	0
Swedish Krona	18,798	168,582	(232)
Hong-Kong Dollar	7,190	76,053	293
Australian Dollar	7,148	14,567	(63)
Czech Koruna	3,425	84,287	(11)
Swiss Franc	1,672	2,156	2
Brazilian Real	1,494	3,624	(57)
Japanese Yen	491	54,108	28
Indian Rupee	183	10,851	14
Korean Won	154	223,815	10
TOTAL	**175,571**		**4,240**

- **Forward purchases hedging financial and commercial transactions as at 31 March 2011**

	Nominal value		
	(€ thousands)	(local currency thousands)	Fair value (€ thousands)
Dollar US	44,244	60,951	(2,642)
Swedish Krona	42,422	373,504	462
Czech Koruna	35,572	895,843	1,011
Pound Sterling	27,593	23,439	(1,263)
Chinese Yuan	17,992	136,592	(93)
Hong-Kong Dollar	17,426	181,698	(901)
Australian Dollar	1,316	1,816	(19)
TOTAL	**186,564**		**(3,445)**

- **A HKD-denominated project is partly hedged by options:**
  - a tunnel of €2 million, with a fair value of (€207 thousand) at 31 March 2011;
  - sale of a call option of €1 million, with a fair value of (€109 thousand) at 31 March.

- **Sensitivity analysis**

The following table presents, at 31 March 2011, the sensitivity to a 10% positive or negative change in other currencies:
- the effect on pre-tax profit only applies to financial assets and liabilities recognised in the balance sheet, which are denominated in a currency other than the functional currency of their controlling entity and which are not hedged against.
- the effect on equity results from the efficient portion of derivative instruments qualifying as cash flow hedges

Currency	Movement in € exchange rate	Effect on operating Profit (before tax)	Effect on reserves in equity
Australian Dollar	10%	66	(499)
	(10%)	(66)	499
Hong-Kong Dollar	10%	185	47
	(10%)	(185)	(47)
Czech Koruna	10%	167	635
	(10%)	(167)	(635)
Pound Sterling	10%	105	(496)
	(10%)	(105)	496
Indian Rupee	10%	146	–
	(10%)	(146)	–
Russian Rouble	10%	–	259
	(10%)	–	(259)

The impact of fluctuations in the Euro against the other currencies is not material.

b) Interest rate risk

The interest rate risk to which the Group is exposed arises as a result of its long term borrowings.

To manage its risk, the parent company's Treasury department has implemented a hedging strategy using swaps, tunnels, caps and options for interest rates and options.

The exposure of interest rates on loans in Euros is hedged for between 71% and 100% of the total debt bearing a Euro interest rate, depending on fluctuations for the 2011/2012 period. The exposure of interest rates on loans in US Dollar is fully hedged.

The estimated cost of bank debt of the Group in 2011/2012 is 2.64%, including hedges, for the debt in Euros and 2.81% for the debt in US dollars.

- **Instruments recognised in equity**

	On Euro loans		On USD loans			
	Nominal (€ thousands)	Fair value (€ thousands)	Nominal (USD thousands)	Fair value (USD thousands)	Nominal (€ thousands)	Fair value (€ thousands)
Swap	145,000	311	41,369	(997)	29,119	(702)
Tunnel	112,500	(124)	–	–	–	–
Cap	70,000	(15)	–	–	–	–
TOTAL	**327,500**	**172**	**41,369**	**(997)**	**29,119**	**(702)**

- **Sensitivity analysis**

The Group has implemented a diversified interest rate risk management policy aimed at limiting the impact of potential interest rate increases on its cash flow. As at 31 March 2011, the projected servicing of net borrowings based on the hedging put in place would limit the impact of a 1% increase in interest rates to €1.4 million.

The impact on equity is €1.7 million with a 0.5% interest rate increase.

c) Risk on raw materials

The Faiveley Transport Group is exposed to increases in the costs of raw materials such as steel, aluminium and copper, and to increases in transportation costs.

The Group has already anticipated these effects, both in terms of its purchasing policy and in the preparation of its tenders. As regards contracts relating to projects, price indexation mechanisms enable the Group to absorb a large part of the increases in raw material costs.

However, the Faiveley Transport Group's sintered brake pads activity is exposed to fluctuations in the price of copper. Contracts were entered into to hedge almost 50% of the 2011/2012 exposure through euro-denominated raw material swaps.

- **Sensitivity analysis**

A 1% increase in the price of copper would have a negative impact of €13 thousand on EBITDA.

d) Derivative instruments

- **The fair value of derivative instruments for hedging exchange, interest rate and raw materials risks is recorded on the balance sheet as follows:**

	31 March 2011			
	Interest rate hedging	Exchange rate hedging	Raw materials hedging	Total
Financial instruments - Assets	1,135	6,484	–	7,619
Financial instruments - Liabilities	1,603	6,424	25	8,052
Unrealised gains and (losses) in equity	(635)	278	(25)	(382)

	31 March 2010			
	Interest rate hedging	Exchange rate hedging	Raw materials hedging	Total
Financial instruments - Assets	–	2,999	–	2,999
Financial instruments - Liabilities	4,324	1,612	–	5,936
Unrealised gains and (losses) in equity	(4,493)	5	–	(4,488)

	31 March 2009			
	Interest rate hedging	Exchange rate hedging	Raw materials hedging	Total
Financial instruments - Assets	–	2,646	27	2,673
Financial instruments - Liabilities	1,724	3,929	1	5,654
Unrealised gains and (losses) in equity	(2,612)	1,329	26	(1,257)

- **Movement of the reserve in equity**

	Amount 1 April 2010	Movement in the year	Amounts recycled to income statement	Amount 31 March 2011
Interest rate hedging	(4,493)	4,361	(503)	(635)
Exchange rate hedging	5	301	(28)	278
Raw materials hedging	–	(25)	–	(25)
TOTAL	**(4,488)**	**4,637**	**(531)**	**(382)**

	Amount 1 April 2009	Movement in the year	Amounts recycled to income statement	Amount 31 March 2010
Interest rate hedging	(2,612)	(1,075)	(806)	(4,493)
Exchange rate hedging	1,329	(1,317)	(7)	5
Raw materials hedging	26	(26)	–	–
TOTAL	**(1,257)**	**(2,418)**	**(813)**	**(4,488)**

- **Horizon for release of amounts recorded in equity at 31 March 2011:**

  The amount recorded in equity, in respect of exchange rate derivatives (€278 thousand) will be recycled to the income statement in the year ending 31 March 2012.

  The amount recorded in equity, in respect of interest rate derivatives (€635 thousand) will be released to the income statement between 31 March 2011 and 31 March 2014 according to the maturity of the flows hedged.

  The amount taken to equity in relation to raw materials (€25 thousand) will be transferred to the income statement for the year to 31 March 2012.

16.6. Credit risk

Owing to its commercial activities, the Faiveley Transport Group is exposed to credit risk, in particular the risk of default on the part of its customers.

The Group only enters into commercial relationships with third parties whose financial position is known to be healthy. The Group's policy is to verify the financial health of those customers wishing to obtain credit.

In the case of derivative instruments and transactions that generate cash when they are unwound, the counterparties are limited to high quality financial institutions.

In addition, the Faiveley Transport Group makes use of factoring arrangements in France, Germany, Spain and Italy. Factoring enables the Group to sell, without recourse, part of its receivables to the factoring company and to banks. This selling without recourse has enabled the Group to improve trade receivables recovery and to transfer the risk of default or bankruptcy on the part of customers or other debtors to the factor.

At 31 March 2011, receivables sold without recourse totalled €95 million, and the amount of receivables sold and not guaranteed was €0.9 million.

As regards the risk associated with financial assets, the Group's maximum exposure is equal to their carrying amount.

16.7. Liquidity risk

Prudent liquidity risk management requires the Group to retain a sufficient level of cash and securities that can be traded on a market, to have adequate financial resources due to the implementation of appropriate credit facilities and to be in a position to unwind positions on the market. Due to the dynamism of the Group's activities, the Treasury department aims to maintain financial flexibility by retaining open but unused credit lines.

At 31 March 2011, the Group respected all the covenants specified by the credit agreement relating to the reorganisation of its shareholding structure and the refinancing of its existing bank borrowings (see note E.15).

The Group estimates that the cash flows generated by its operating activities, cash and funds available via existing credit lines will be sufficient to cover the expenditure and investment necessary for its operations, to service its debt and to pay dividends. Conversely, the Group may borrow to finance potential acquisitions.

a/ Available cash and cash equivalents

	31 March 2011	31 March 2010	31 March 2009
Available credit lines (a)	83,564	85,205	68,143
Parent company cash (b)	37,211	36,883	27,660
Subsidiaries cash and cash equivalents (c)	160,271	158,539	135,614
AVAILABLE CASH AND CASH EQUIVALENTS (1) = (a+b+c)	**281,046**	**280,627**	**231,417**
Borrowings due in less than one year (d)	53,441	56,021	34,793
Available credit lines maturing in less than one year and bank overdrafts (e)	88,995	89,272	55,715
NET CASH AND CASH EQUIVALENTS AVAILABLE OVER THE NEXT YEAR (1-d-e)	**138,610**	**135,334**	**140,909**

Cash and cash equivalents include unused factoring cash of €44.8 million (net of non guaranteed receivables factored).

The improvement in cash and cash equivalents was due mainly to the cash flow generated by the Group.

Financial debt of less than one year is disclosed in paragraph 15.1 (excluding bank overdraft, fair value of derivatives and invoices factored and not guaranteed).

Available credit lines represent credit lines granted by the banks and available immediately to the subsidiaries or the parent company. At 31 March 2011, €4.8 million was used in respect of a bank overdraft.

b/ Maturity dates of financial liabilities at 31 March 2011

At 31 March 2011	Carrying amount	Under 1 year	1 to 5 years	Over 5 years	Non-financial liabilities
Liability financial instruments:					
Borrowings	366,811	50,206	316,605	–	–
Finance leases	2,471	616	774	1,081	–
Employee profit sharing	65	65	–	–	–
Various other borrowings	86	86	–	–	–
Guarantees, deposits and securities received	57	1	56	–	–
Credit current accounts	2,451	2,451	–	–	–
Bank overdrafts	4,771	4,771	–	–	–
Fair value of derivatives – liabilities	15,892	15,892	–	–	–
Invoices factored and not guaranteed	902	902	–	–	–
Operating liabilities	226,953	211,986	–		14,967
Other liabilities	10,251	221	–	–	10,030
Interest on liabilities	246	246	–	–	–
TOTAL	**630,956**	**287,443**	**317,435**	**1,081**	**24,997**

- **Future cash flows**

At 31 March 2011	Value	Under 1 year	1 to 2 years	2 to 3 years	Over 3 years
Borrowings	368,927	50,206	49,221	269,500	–
Finance leases	2,471	632	190	183	1,466
Employee profit sharing	65	65	–	–	–
Various other borrowings	86	86	–	–	–
Guarantees, deposits and securities received	57	1	56	–	–
Credit current accounts	2,451	2,451	–	–	–

- **Forecast future cash flows of interest and interest rate hedges**

At 31 March 2011	Value	Under 1 year	1 to 2 years	2 to 3 years	Over 3 years
Interest on liabilities	24,028	7,625	9,390	7,013	–
Cash flow from liability financial instruments	1,554	1,236	280	38	89

c/ Maturity dates of financial liabilities at 31 March 2010

At 31 March 2010	Carrying amount	Under 1 year	1 to 5 years	Over 5 years	Non-financial liabilities
Liability financial instruments:					
Borrowings	420,024	53,142	366,882	–	–
Finance leases	3,062	541	1,245	1,276	–
Employee profit sharing	65	65	–	–	–
Various other borrowings	162	162	–	–	–
Guarantees, deposits and securities received	20	1	19	–	–
Credit current accounts	2,111	2,111	–	–	–
Bank overdrafts	3,696	3,696	–	–	–
Fair value of derivatives – liabilities	12,004	12,004	–	–	–
Invoices factored and not guaranteed	1,285	1,285	–	–	–
Operating liabilities	210,354	197,859	–	–	12,495
Other liabilities	14,084	1,614	–	–	12,470
Interest on liabilities	259	259	–	–	–
TOTAL	**667,126**	**272,739**	**368,146**	**1,276**	**24,965**

- **Future cash flows**

At 31 March 2010	Value	Under 1 year	1 to 2 years	2 to 3 years	Over 3 years
Borrowings	422,776	53,142	49,572	49,414	270,648
Finance leases	3,062	541	457	258	1,806
Employee profit sharing	65	65	–	–	–
Various other borrowings	161	161	–	–	–
Guarantees, deposits and securities received	1	1	–	–	–
Credit current accounts	2,111	2,111	–	–	–

- **Forecast future cash flows of interest and interest rate hedges**

At 31 March 2010	Value	Under 1 year	1 to 2 years	2 to 3 years	Over 3 years
Interest on liabilities	30,361	6,197	8,159	9,215	6,790
Cash flow from liability financial instruments	3,753	2,795	1,152	(194)	–

d/ Maturity dates of financial liabilities at 31 March 2009

At 31 March 2009	Carrying amount	Under 1 year	1 to 5 years	Over 5 years	Non-financial liabilities
Liability financial instruments:					
Borrowings	448,794	31,965	416,829	–	–
Finance leases	3,723	569	2,426	728	–
Employee profit sharing	65	65	–	–	–
Various other borrowings	63	61	2	–	–
Guarantees, deposits and securities received	11	11	–	–	–
Credit current accounts	2,122	2,122	–	–	–
Bank overdrafts	18,094	18,094	–	–	–
Fair value of derivatives liabilities	5,654	5,654	–	–	–
Invoices factored and not guaranteed	805	805	–	–	–
Operating liabilities	213,733	204,323	–	–	9,410
Other liabilities	12,311	1,968	–	–	10,343
Interest on liabilities	74	74	–	–	–
TOTAL	**705,449**	**265,711**	**419,257**	**728**	**19,753**

16.8. Contribution to net finance income

At 31 March 2011	Interest	Dividends	Revaluation		Disposals	Exchange gain or loss and other	Net finance income
			Profits	Losses			
Loans and receivables	2,019	–	–	–	–	1,161	(9,166)
Payables at amortised cost	(12,346)	–	–	–	–		
Instruments measured at fair value through profit or loss	(518)	–	193	(1,204)	94	(496)	(1,931)
Assets held for sale	–	–	–	–	–	–	–
Other	(2,334)	7	–	–	–	–	(2,326)
TOTAL	**(13,178)**	**7**	**193**	**(1,204)**	**94**	**664**	**(13,424)**

At 31 March 2010	Interest	Dividends	Revaluation		Disposals	Exchange gain or loss and other	Net finance income
			Profits	Losses			
Loans and receivables	1,255	–	–	–	–	(14,243)	(27,604)
Payables at amortised cost	(14,616)	–	–	–	–		
Instruments measured at fair value through profit or loss	(223)	–	4,220	(244)	108	10,171	14,032
Assets held for sale	–	–	–	–	–	–	–
Other	(1,976)	11	–	–	–	–	(1,965)
TOTAL	**(15,561)**	**11**	**4,220**	**(244)**	**108**	**(4,072)**	**(15,538)**

At 31 March 2009	Interest	Dividends	Revaluation		Disposals	Exchange gain or loss and other	Net finance income
			Profits	Losses			
Loans and receivables	1,938	–	–	–	–	24,424	11,110
Payables at amortised cost	(15,251)	–	–	–	–		
Instruments measured at fair value through profit or loss	(4,895)	–	–	(4,067)	(389)	(14,108)	(23,459)
Assets held for sale	–	–	–	–	–	–	–
Other	(2,119)	23	–	–	–	–	(2,096)
TOTAL	**(20,328)**	**23**	**–**	**(4,067)**	**(389)**	**10,316**	**(14,445)**

17. CURRENT LIABILITIES

17.1. Operating liabilities

	Total		
	31 March 2011	31 March 2010	31 March 2009
Trade payables	152,248	143,117	151,315
Tax and social security liabilities	59,893	54,742	53,008
Accrued credit notes	922	1,791	1,698
Deferred income	940	2,949	1,984
Accrued expenses	13,105	7,755	5,728
TOTAL	**227,108**	**210,354**	**213,733**

At 31 March 2011, "Trade payables" were increased by €13 million of work in progress creditors, compared to €10.8 million at 31 March 2010 and €10.9 million at 31 March 2009 (see note E.8).

17.2. Other liabilities

	Total		
	31 March 2011	31 March 2010	31 March 2009
Dividends payable	55	147	122
Other operating liabilities	10,031	13,512	11,782
TOTAL	**10,252**	**14,084**	**12,311**

18. FACTORING

In order to optimise the cost of the Group's bank financing, Faiveley Transport Tours, Faiveley Transport Amiens, Faiveley Transport Gennevilliers, Faiveley Transport NSF, Faiveley Transport Italia, Faiveley Transport Iberica, Faiveley Transport Leipzig and Faiveley Transport Witten sell their trade receivables to a factor.

Accordingly, factoring resulted in a €94,968 thousand reduction in trade receivables at 31 March 2011. In addition, available and uncalled cash with the factor amounted to €45,682 thousand and is included in cash.

However, the portion of receivables sold and not guaranteed was recorded as financial debt under "current borrowings" for an amount of €902 thousand. The risk incurred by the Group in respect of receivables sold and not guaranteed relates to the non-collection of these receivables.

19. SEGMENT REPORTING

In all tables summarising segment reporting, the column "Others" represented the activities of the parent company Faiveley S.A., including IFRS restatements and before the elimination of inter-company transactions.

At 31 March 2008, Faiveley S.A. only held shares in Faiveley Transport and had no relationship with the operating subsidiaries.

Following the transactions completed on 23 December 2008, Faiveley S. A. decided to proceed with the dissolution of Faiveley Transport without liquidation. At 31 March 2009, the net assets of Faiveley Transport were transferred to Faiveley S.A. (subsequently renamed Faiveley Transport) by a simple merger transaction by means of a complete transfer of its assets and liabilities, therefore eliminating all intermediate companies between the parent company and the operating companies of the Group.

Due to this, the segment reporting as at 31 March 2010 only concerns the railway sector.

19.1. By business segment

- **2010/2011 financial year**

Income Statement

	31 March 2011
Continuing operations:	
Sales	913,872
Operating profit	126,666
Net finance income/(cost)	(13,425)
Income tax	(32,096)
Share of profit of associates	–
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**81,145**
Discontinued operations:	–
Profit before tax	–
Income tax	–
Gain (loss) on disposal	–
NET PROFIT OF DISCONTINUED OPERATIONS	**–**
CONSOLIDATED NET PROFIT	**81,145**
Depreciation and amortisation for the period	15,503

Balance Sheet

	31 March 2011
Property, plant and equipment and intangible assets, net	670,465
Non-current financial assets	4,945
Deferred tax assets	29,848
SUB-TOTAL NON-CURRENT ASSETS	**705,258**
Inventories and receivables (excluding tax)	411,801
Other current assets	21,744
Cash and cash equivalents	198,382
SUB-TOTAL CURRENT ASSETS	**631,927**
TOTAL ASSETS	**1,337,185**
Equity	453,275
Employee benefits and other non-current provisions	35,529
Deferred tax liabilities	17,508
Non-current borrowings	318,516
SUB-TOTAL NON-CURRENT LIABILITIES	**371,553**
Current provisions	72,138
Current borrowings	75,236
Advances, prepayments and liabilities (excluding tax)	340,042
Other current liabilities	24,941
SUB-TOTAL CURRENT LIABILITIES	**512,357**
TOTAL EQUITY AND LIABILITIES	**1,337,185**
Acquisitions of property, plant and equipment and intangible assets (excluding goodwill) for the period	17,072
Workforce	5,114

- **2009/2010 financial year**

Income statement

	31 March 2010
Continuing operations:	
Sales	875,948
Operating profit	118,247
Net finance income/(cost)	(15,538)
Income tax	(27,852)
Share of profit of associates	–
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**74,857**
Discontinued operations:	–
Profit before tax	–
Income tax	–
Gain (loss) on disposal	–
NET PROFIT OF DISCONTINUED OPERATIONS	**–**
CONSOLIDATED NET PROFIT	**74,857**
Depreciation and amortisation for the period	15,976

Balance Sheet

	31 March 2010
Property, plant and equipment and intangible assets, net	659,226
Non-current financial assets	4,377
Deferred tax assets	31,591
SUB-TOTAL NON-CURRENT ASSETS	**695,194**
Inventories and receivables (excluding tax)	383,787
Other current assets	15,767
Cash and cash equivalents	196,705
SUB-TOTAL CURRENT ASSETS	**596,259**
TOTAL ASSETS	**1,291,453**
Equity	376,666
Employee benefits and other non-current provisions	38,812
Deferred tax liabilities	23,466
Non-current borrowings	369,422
SUB-TOTAL NON-CURRENT LIABILITIES	**431,700**
Current provisions	70,941
Current borrowings	73,266
Advances, prepayments and liabilities (excluding tax)	310,867
Other current liabilities	28,013
SUB-TOTAL CURRENT LIABILITIES	**483,087**
TOTAL EQUITY AND LIABILITIES	**1,291,453**
Acquisitions of property, plant and equipment and intangible assets (excluding goodwill) for the period	16,998
Workforce	4,865

- **2008/2009 financial year**

Income statement

	31 March 2009			
	Railway systems	Others	Eliminations	Total
Continuing operations:				
Sales	851,996	28	–	852,024
Operating profit	114,902	(1,115)	–	113,787
Net finance income/(cost)	(13,449)	77,704	(78,700)	(14,445)
Income tax	(35,198)	7,103	–	(28,095)
Share of profit of associates	–	–	–	–
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**66,255**	**83,692**	**(78,700)**	**71,247**
Discontinued operations:	–	–	–	–
Profit before tax	–	–	–	–
Income tax	–	–	–	–
Gain (loss) on disposal	–	–	–	–
NET PROFIT OF DISCONTINUED OPERATIONS	**–**	**–**	**–**	**–**
CONSOLIDATED NET PROFIT	**66,255**	**83,692**	**(78,700)**	**71,247**
Depreciation and amortisation for the period	15,362	2	–	15,364

Balance Sheet

	31 March 2009			
	Railway systems	Others	Eliminations	Total
Property, plant and equipment and intangible assets, net	140,174	272,167	241,376	653,717
Non-current financial assets	37,678	540,845	(570,818)	7,705
Deferred tax assets	23,560	5,285	–	28,845
SUB-TOTAL NON-CURRENT ASSETS	**201,412**	**818,297**	**(329,442)**	**690,267**
Inventories and receivables (excluding tax)	367,281	43,301	(55,514)	355,068
Other current assets	359,648	63,037	(412,191)	10,494
Cash and cash equivalents	136,417	27,660	–	164,077
SUB-TOTAL CURRENT ASSETS	**863,346**	**133,998**	**(467,705)**	**529,639**
TOTAL ASSETS	**1,064,758**	**952,295**	**(797,147)**	**1,219,906**
Equity	399,403	78,676	(181,158)	296,921
Employee benefits and other non-current provisions	42,046	377	–	42,423
Deferred tax liabilities	16,446	3,299	–	19,745
Non-current borrowings	124,987	445,822	(150,825)	419,984
SUB-TOTAL NON-CURRENT LIABILITIES	**582,891**	**528,165**	**(331,983)**	**779,073**
Current provisions	62,567	315	–	62,882
Current borrowings	67,140	388,979	(396,698)	59,421
Advances, prepayments and liabilities (excluding tax)	323,384	23,757	(55,546)	291,595
Other current liabilities	28,776	11,079	(12,920)	26,935
SUB-TOTAL CURRENT LIABILITIES	**481,867**	**424,130**	**(465,164)**	**440,833**
TOTAL EQUITY AND LIABILITIES	**1,064,758**	**952,295**	**(797,147)**	**1,219,906**
Acquisitions of property, plant and equipment and intangible assets (excluding goodwill) for the period	16,013	–	–	16,013
Workforce	4,566	53	–	4,619

19.2. By geographic region

- **2010/2011 financial year**

Contribution by business segment and original geographic region:

	France	Europe (excl. France)	Americas	Asia/ Pacific	Total railway business
Sales	203,878	406,367	72,414	231,213	913,872
Closing balance of property, plant and equipment and intangible assets (excluding goodwill)	65,632	30,523	22,193	10,090	128,438
Acquisition of property, plant and equipment and intangible assets (excluding goodwill)	8,937	3,781	1,593	2,761	17,072
Amortisation and depreciation of property, plant and equipment and intangible assets (excluding goodwill)	6,079	6,097	1,147	2,180	15,503

- **2009/2010 financial year**

Contribution by business segment and original geographic region:

	France	Europe (excl. France)	Americas	Asia/ Pacific	Total railway business
Sales	225,054	413,822	62,809	174,263	875,948
Closing balance of property, plant and equipment and intangible assets (excluding goodwill)	62,804	32,581	14,352	9,476	119,213
Acquisition of property, plant and equipment and intangible assets (excluding goodwill)	7,964	5,026	1,458	2,550	16,998
Amortisation and depreciation of property, plant and equipment and intangible assets (excluding goodwill)	5,730	7,061	1,179	2,006	15,976

- **2008/2009 financial year**

– Sales contribution by business segment and original geographic region:

	31 March 2009		
	Railway systems	Others	Total
France	215,656	28	215,684
Europe (excl. France)	461,905	–	461,905
Americas	58,704	–	58,704
Asia – Pacific	115,732	–	115,732
TOTAL	**851,996**	**28**	**852,024**

– Closing balance of property, plant and equipment and intangible assets, net (excluding goodwill) by business segment and units' original geographic region:

	31 March 2009		
	Railway systems	Others	Total
France	54,005	6,584	60,589
Europe (excl. France)	34,356	–	34,356
Americas	14,295	–	14,295
Asia – Pacific	8,606	–	8,606
TOTAL	**111,262**	**6,584**	**117,846**

– Acquisitions of property, plant and equipment and intangible assets, net (excl. goodwill) by business segment and units' original geographic region:

	31 March 2009		
	Railway systems	Others	Total
France	6,990	–	6,990
Europe (excl. France)	6,208	–	6,208
Americas	714	–	714
Asia – Pacific	2,101	–	2,101
TOTAL	**16,013**	**–**	**16,013**

– Depreciation of property, plant and equipment and amortisation of intangible assets (excl. goodwill) by business segment and geographic region:

	31 March 2009		
	Railway systems	Others	Total
France	6,332	2	6,334
Europe (excl. France)	6,810	–	6,810
Americas	812	–	812
Asia – Pacific	1,408	–	1,408
TOTAL	**15,362**	**2**	**15,364**

20. SALES

	31 March 2011	31 March 2010	31 March 2009
Sales of products associated with contracts	881,937	846,348	819,209
Sales of services	31,935	29,600	32,815
TOTAL[1]	**913,872**	**875,948**	**852,024**

(1) of which sales of "Customer services" related products of €299 million at 31 March 2011, €274 million at 31 March 2010, and €263 million at 31 March 2009.

21. COST OF SALES

	31 March 2011	31 March 2010	31 March 2009
Direct labour	(70,437)	(61,655)	(61,402)
Raw materials	(378,314)	(369,377)	(369,173)
Overhead costs	(56,217)	(57,600)	(56,587)
Cost of supplies	(44,477)	(39,218)	(35,925)
Engineering costs	(53,954)	(48,467)	(43,353)
Other direct costs	(40,532)	(33,445)	(29,102)
Change in projects in progress	15,659	6,706	5,695
Net change in project provisions (charge/reversal)	(23,945)	(25,245)	(22,644)
Net change in provision for losses to completion	(187)	(616)	2,758
TOTAL COST OF SALES	**(652,404)**	**(628,917)**	**(609,733)**

22. OTHER OPERATING INCOME (EXPENSE)

	31 March 2011	31 March 2010	31 March 2009
Royalties	1,603	860	992
Doubtful debts	2,537	1,019	974
Writebacks of provisions for other liabilities	671	1,824	386
Insurance compensation	133	123	71
Other income	82	3,858	172
TOTAL OTHER INCOME	**5,026**	**7,684**	**2,595**
Royalties	(15)	(26)	(6)
Doubtful debts	(4,916)	(4,706)	(1,348)
Charges to provisions for other liabilities	(875)	(737)	(970)
Inventory writedowns	(3,468)	(4,105)	(2,811)
Other expenses	–	–	–
TOTAL OTHER EXPENSES	**(9,274)**	**(9,574)**	**(5,135)**
TOTAL NET	**(1,890)**	**(1,890)**	**(2,540)**

23. GAINS AND LOSSES ON DISPOSALS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	31 March 2011	31 March 2010	31 March 2009
Sales price of assets sold	155	163	275
Carrying amount of assets sold	(630)	(479)	(531)
TOTAL	**(475)**	**(316)**	**(256)**

24. NET FINANCE INCOME/(COST)

	31 March 2011	31 March 2010	31 March 2009
Gross cost of debt	(12,008)	(14,752)	(19,065)
Income from cash and cash equivalents	1,230	796	1,380
NET COST OF DEBT	**(10,778)**	**(13,956)**	**(17,685)**
Financial instrument income	3,440	14,372	252
Income linked to exchange differences	20,750	19,206	40,432
Proceeds from sale of investments	–	–	–
Proceeds from sale of marketable securities	94	112	110
Reversal of financial provisions	314	236	806
Income from balance of sale financing	410	271	496
Dividends received	7	11	23
Other finance income	379	188	62
OTHER FINANCE INCOME	**25,395**	**34,396**	**42,181**
Financial instrument charges	(4,926)	(338)	(19,368)
Charges linked to exchange differences	(19,589)	(33,449)	(16,008)
Interest charges on retirement commitments	(1,567)	(1,248)	(1,505)
Carrying amount of investments sold	–	(4)	(499)
Charges to financial provisions	(616)	–	(100)
Charges on bank guarantees	(766)	(728)	(614)
Other finance costs	(576)	(210)	(847)
OTHER FINANCE COSTS	**(28,041)**	**(35,978)**	**(38,941)**
NET FINANCE COST	**(13,425)**	**(15,538)**	**(14,445)**

The increase in the net finance cost was due to:

- interest and restructuring charges for the bank debt in December 2008, as part of the reorganisation of Group's shareholdings, which had a financial cost of €(10) million;
- the slight actual and unrealised exchange loss from financial transactions, after deduction of the value of derivative instruments, for €(0.3) million;
- the other financial income and expense items comprise various bank charges, interest on leasing, interest on the bank overdraft and other loans contracted by subsidiaries, the interest charge on pension commitments, offset by other financial income for a net negative of €(3.1) million.

25. INCOME TAX

a) Analysis by type

	31 March 2011	31 March 2010	31 March 2009
Current tax – continuing operations	31,159	26,579	29,661
Deferred tax – continuing operations	937	1,273	(1,565)
TOTAL INCOME TAX – CONTINUING OPERATIONS	**32,096**	**27,852**	**28,095**
Tax on discontinued operations	–	–	–
TOTAL TAX	**32,096**	**27,852**	**28,095**

For the year ended 31 March 2011, the effective tax rate was 28.3% (compared with 27.1% for the year ended 31 March 2010 and 28.3% for the year ended 31 March 2009) and the current income tax rate was 27.5% (compared with 25.9% for the year ended 31 March 2010 and 29.9% for the year ended 31 March 2009).

b) Effective tax rate

	31 March 2011	31 March 2010	31 March 2009
Pre-tax profit from continuing operations	113,241	102,709	99,342
Pre-tax profit from operations sold or held for sale	–	–	–
Statutory tax rate of the parent company	33.33%	33.33%	33.33%
THEORETICAL TAX CREDIT / (CHARGE)	**(37,743)**	**(34,233)**	**(33,111)**
Impact of:			
permanent differences between profits for accounting purposes and taxable profits	708	(574)	1,929
differences between the tax rates applicable to the parent company and to the subsidiaries	3,076	2,999	3,224
the liability method (changes in tax rates)	237	161	(255)
tax saving achieved through offset of tax losses carried forward	757	1,851	713
tax saving recognised as a reduction in the Sab Wabco goodwill	–	(393)	(754)
deferred tax assets in respect of tax losses carried forward not recognised for the period	(59)	21	(1,591)
change in deferred tax assets not recognised	(132)	1,015	501
cancellation of non-recognition of deferred tax in earlier periods	–	52	568
tax credits	189	577	507
tax adjustments in respect of earlier periods	(502)	1,008	(383)
other differences	1,373	(336)	557
TAX CHARGE	**(32,096)**	**(27,852)**	**(28,095)**
Effective tax rate	**28.3%**	**27.1%**	**28.3%**

At 31 March 2011, income tax was affected by the reclassification of CVAE (see note C.1.c above). The impact on the financial statements for the year was an income tax charge of €1,962 thousand and a net deferred tax assets of €140 thousand.

c) Breakdown of tax losses carried forward (tax bases) by expiry date

Year ended	31 March 2011	31 March 2010	31 March 2009
Losses expiring within 4 years	521	669	1,499
Losses expiring in 5 years and over	5,524	368	8,175
Losses expiring in over 20 years	–	–	1,326
Losses that may be carried forward indefinitely	28,375	30,353	24,488
TOTAL	**34,420**	**31,390**	**35,488**
Tax losses not recognised as deferred tax assets	*28,370*	*29,530*	*33,586*
Tax losses recognised as deferred tax assets	*6,050*	*1,860*	*1,902*
Limits on the use of tax losses recognised as deferred tax assets:			
Losses expiring within 5 years	*520*	*1,036*	*1,899*
5-year to 20-year deadline for use	*5,524*	–	–
Losses that may be carried forward indefinitely	*6*	*824*	*3*

26. SHARE OF PROFIT/(LOSS) FROM OPERATIONS SOLD OR HELD FOR SALE

Nil.

27. PAYROLL COSTS AND WORKFORCE AT 31 MARCH

	31 March 2011	31 March 2010	31 March 2009
Salaries	167,547	155,026	139,595
Social security charges	46,351	43,955	41,789
Retirement and other post-employment benefits	6,074	6,775	5,942
Charges associated with share-based payments	141	118	(216)
TOTAL PAYROLL COSTS	**220,113**	**205,874**	**187,110**
Managers	976	1,004	952
Supervisors and foremen	2,129	1,949	1,775
Operatives	2,009	1,912	1,892
TOTAL WORKFORCE	**5,114**	**4,865**	**4,619**

28. POST CLOSING EVENTS

On 1 April 2011, Thierry Barel was appointed as Chairman of the Management Board and Chief Executive Officer by the Supervisory Board, to replace Robert Joyeux who resigned from his duties.

On the same day, the Supervisory Board also appointed Guillaume Bouhours, Group Chief Financial Officer, as a member of the Management Board.

In a ruling dated 13 April 2011, the District Court of New York acknowledged that Wabtec was responsible to subsidiaries of Faiveley Transport for acts of unfair competition, misappropriation of confidential and secret information and unjust enrichment. The federal court will examine the damage alleged by Faiveley Transport in future hearings, which are expected in the month of June 2011.

The Group has decided to move from the premises housing its headquarters to a building in Gennevilliers, which benefits from HQE (High Environmental Quality) and HPE (high energy efficiency) certification. The move took place in the month of July 2011.

29. RELATED PARTY TRANSACTIONS

The aim of this note is to present the material transactions entered into between the Group and its related parties as defined by IAS 24.

The parties related to the Faiveley Transport Group are the consolidated companies (including those companies that are proportionally consolidated and those consolidated using the equity method), the entities and people that control Faiveley Transport and the Group's senior management.

Transactions entered into between the Faiveley Transport Group and its related parties are at arm's length terms.

29.1 Transactions with related companies

A list of consolidated companies is provided in note G.

Transactions carried out and balances outstanding with fully consolidated companies at the balance sheet date are fully eliminated on consolidation.

Only the following are included in the notes below:

- data relating to such intra-Group transactions, when they involve companies over which the Group exercises joint control (proportionally consolidated) and those over which the Group has significant influence (accounted for using the equity method) concerning the portion not eliminated on consolidation;
- material transactions with other Group companies.

29.1.1. Transactions with consolidated companies:

- **With joint ventures:**

The joint ventures are proportionally consolidated companies:
- Qingdao Faiveley Sri Rail Brake Co. Ltd.: 50/50 joint venture formed in 2006 to enable the Group to penetrate the Chinese brake market.
- Datong Faiveley Couplers System Co. Ltd.: 50/50 joint venture formed in 2007 with Datong Yida Foundry Co Ltd, with the aim of manufacturing and selling couplers.
- ShiJiaZhuang JiaXiang Precision Machinery Co. Ltd.: on 20 December 2007, the Group acquired 50% of the shares of this Chinese company which specialises in the development and production of compressors for the railway market.

- **Transactions with joint ventures not eliminated on consolidation:**

The consolidated financial statements include transactions carried out by the Group with its joint ventures as part of its normal business activities.

These transactions are normally carried out at arm's length terms.

(€ thousands)	31 March 2011	31 March 2010	31 March 2009
Sales	13,093	4,781	421
Operating receivables	5,017	4,142	1,480
Operating payables	(1,210)	(1,495)	(1,284)

- **Contribution of joint ventures to the consolidated financial statements**

(€ thousands)	31 March 2011	31 March 2010	31 March 2009
Non-current assets	1,508	1,474	1,259
Current assets	19,500	11,718	7,930
Equity	4,576	(680)	(294)
Other non-current liabilities	19	19	4
Current liabilities	12,797	10,238	5,864
Sales	34,965	9,844	11,545

- **With associates**

Nil.

29.1.2. With the companies that control Faiveley Transport

- **With Francois Faiveley Participations**

– Contract of assistance

Under the terms of a contract of assistance, Faiveley Transport recognised the following amounts in its expenses and income for the financial year, corresponding to the rebilling of rent and the provision of services.

(€)	Faiveley Transport expenses	Faiveley Transport income
Contract of assistance, provision of services	365,000	1,020
Re-billing of rent and utility expenses	–	2,150

– Fraction of financial investments, receivables, debts, expenses and income pertaining to these related companies:

(€ thousands)	2010/2011	2009/2010	2008/2009
Trade receivables	1	1	1
Borrowings	(1,908)	(1,873)	(1,833)
Trade payables	–	(10)	(109)
Rebilling of rents	5	3	3
Provision of services	(365)	(365)	(365)
Financial income	–	–	–
Financial expenses	(24)	(23)	(73)

29.2. Senior management remuneration

Senior management comprises mainly the members of the Management Board, Supervisory Board and Executive Committee.

The Remuneration Committee determines the remuneration to be allocated to corporate officers; it is responsible for assessing and determining the variable portion of the remuneration of the members of the Management Board, which is based on performance targets and the financial statements audited by the Statutory Auditors.

The following table provides details, in aggregate and for each category, of the components of the remuneration of the senior management:

(€)	2010/2011	2009/2010	2008/2009
Short-term benefits(1)	6,591,515	6,376,930	5,559,586
Termination benefits(4)	646,330	989,449	–
Post-employment benefits(2)	(74,713)	75,927	44,084
Share-based compensation(3)	–	–	–
Other long-term benefits	723	(643)	411
Directors' fees	138,800	100,600	66,200
TOTAL	**7,302,655**	**7,542,263**	**5,670,281**

(1) This category comprises fixed and variable remuneration (including employers' costs), profit sharing and incentive payments, supplementary contributions and benefits in kind paid during the year.

(2) Change in retirement provisions.

(3) Expense recognised in the income statement.

(4) At 31 March 2010, termination benefits concerned non-executive employees.
At 31 March 2011, termination benefits concerned Etienne Haumont, who resigned his position as a member of the Management Board on 1 September 2010 and his duties as Chief Financial Officer on 24 September 2010.

- **Agreements entered into with senior management**

– With Robert Joyeux and Etienne Haumont

Memorandum of understanding with managers

In accordance with the memorandum of understanding entered into on 18 October 2008 between Faiveley S.A. and the managers of Faiveley Management (amended by the addendum of 17 November 2008), every manager who had received Faiveley Transport shares in exchange for Faiveley Management shares committed to retain them, and thus committed not to sell, and more generally transfer, directly or indirectly, at once or at a later date, the said Faiveley Transport shares without the prior approval in writing of Faiveley Transport, under the following terms and conditions:

(i) up to one third of shares granted as consideration for the contributions, for a period of 2 (two) years from the effective date of the transaction;

(ii) for the remaining shares granted as consideration for the contributions (two thirds), for a period of 3 (three) years from the effective date of the transaction.

It should be noted that the transaction was approved by the Extraordinary General Meeting of 23 December 2008, the effective date of the transaction. On this occasion, Robert Joyeux and Etienne Haumont were granted 140,610 and 58,588 Faiveley Transport shares, respectively, in exchange for their Faiveley Management shares.

Addendum to the Managers' memorandum of understanding

An addendum to the Managers' memorandum of understanding entered into on 16 October 2008 was signed on 13 September 2010 between the Company and Etienne Haumont, and authorised by the Supervisory Board on 6 June 2010, to amend the provisions of Article 9.1 of the said memorandum relating to the mandatory retention of shares held in the Company.

On 27 September 2010, Etienne Haumont sold 48,588 shares to the Company at market price.

Etienne Haumont resigned from his position as a member of the Management Board on 1 September 2010.

30. DIVIDENDS PAID AND PROPOSED

On 17 September 2010, a dividend of €1.20 per share was paid in respect of 14,082,173 shares, i.e. a total dividend of €16,898,607.60 for the year ended 31 March 2010. The difference between the number of shares in respect of which dividends were paid and the total shares making up the share capital, i.e. 322,538 shares, corresponds to the treasury shares owned by Faiveley Transport at the time of the distribution of the dividend.

	Number of shares	Treasury shares	Number of shares to which dividends paid	Dividends paid
Ordinary shares	6,759,591	322,538	6,437,053	7,724,464
Shares with double voting rights	7,645,120	–	7,645,120	9,174,144
	14,404,711	**322,538**	**14,082,173**	**16,898,608**(1)

(1) Including €7,578,450 to Financière Faiveley and €1,391,146 to François Faiveley Participation (F.F.P.).

In respect of the year ended 31 March 2011, the General Meeting will be asked to approve the payment of a dividend to shareholders of €17,285,653.20, being €1.20 per share. This distribution will be taken from the account “Retained Earnings”. It will be payable with effect from 19 September 2011. It was not recognised as a liability as at 31 March 2011.

F. Off-balance sheet commitments (in € thousands)

1. LEASES

- **Operating leases**

The operating leases entered into by the Faiveley Transport Group relate mainly to buildings and furniture.

The income and expenses recognised in respect of operating leases over the last three financial years break down as follows:

	2010/2011	2009/2010	2008/2009
Operating lease expenses	(9,182)	(8,631)	(8,467)
Sub-letting income	455	411	428
TOTAL	**(8,727)**	**(8,220)**	**(8,039)**

The future minimum payments to be made in respect of operating leases which are non-cancellable and had not expired as at 31 March 2011 are as follows:

	Under 1 year	1 to 5 years	Over 5 years
TOTAL FUTURE RENTS	**7,581**	**28,113**	**25,292**

- **Finance leases**

Finance leases relate to property, plant and equipment (see note E.3 above). The minimum outstanding lease charges in respect of irrevocable finance leases are shown in the following table, analysed according to their due dates:

	2010/2011	2009/2010	2008/2009
Under 1 year	639	620	805
1 to 5 years	765	1,383	1,767
Over 5 years	1,081	1,333	2,128
Total future rentals	**2,485**	**3,336**	**4,648**
Less interest	(15)	(273)	(925)
OUTSTANDING LIABILITY IN RESPECT OF FINANCE LEASES	**2,471**	**3,063**	**3,723**

2. OTHER COMMITMENTS GIVEN

	2010/2011	2009/2010	2008/2009
Guarantees, securities and bank guarantees given to customers	217,724	228,488,	167,269,
Guarantees and securities given by the parent company to customers	308,065	205,962	217,008,
Borrowings guaranteed by pledges:			
Mortgages of buildings	8,149	8,556	8,892
Share pledge (*)	289,317	289,317	325,578
Trade receivables pledged	1,114	1,037	6,837
Materials pledged	–	–	–

(*) The pledge of certain equity investments as guarantee for the bank loans.

The off-balance sheet commitments above entitled "guarantees, securities and bank guarantees" is related to guarantees or securities provided to the banks essentially in favour of customers with whom commercial contracts have been signed. These guarantees are generally issued for defined periods and for defined amounts. These are principally guarantees for the repayment of deposits and guarantees for the satisfactory completion of the contracts. The bank counter guarantees are issued for the benefit of banks supplying credit lines and the issue of guarantees for the benefit of certain subsidiaries of the Group.

The off-balance sheet commitments above entitled "guarantees and securities given by the parent company" are guarantees agreed by the parent company Faiveley Transport in favour of customers who have signed commercial contracts with subsidiaries of the Group. As for bank guarantees, these guarantees are issued for defined periods and for defined amounts and essentially relate to guarantees for the repayment of deposits and guarantees for the satisfactory completion of the contracts.

The shares that have been pledged in relation to the credit agreement relating the reorganisation of the shareholding structure and the refinancing of bank borrowings are as follows:

Shares pledged	Carrying value of shares (€ millions)
Faiveley Transport Amiens	20,000
Faiveley Transport Tours	29,398
Faiveley Transport Leipzig	23,111
Faiveley Transport Verwaltungs	29
Faiveley Transport Holding	90,010
Faiveley Transport Witten	74,500
Faiveley Transport Iberica	1,390
Faiveley Transport Italia	37,827
Faiveley Transport USA	13,052
TOTAL	**289,317**

3. COMMITMENTS RECEIVED

- Other guarantees from suppliers: €3,217 thousand.

G. Listing of Group-owned companies and consolidation method

1. LISTING OF CONSOLIDATED COMPANIES AND CONSOLIDATION METHODS

Faiveley Transport is the Group holding company.

The following companies, in which Faiveley Transport controls directly or indirectly more than 50% of the share capital, were fully consolidated.

Entity	Country	% Control	% Interest
Parent company			
Faiveley Transport			
Full consolidation			
Faiveley Transport LEIPZIG GmbH & Co. KG(1)	Germany	100.00	100.00
Faiveley Transport WITTEN GmbH(1)	Germany	100.00	100.00
Faiveley Transport VERWALTUNGS GmbH(1)	Germany	100.00	100.00
Faiveley Transport HOLDING GmbH & Co. KG(1)	Germany	100.00	100.00
NOWE GmbH(1)	Germany	75.00	75.00
Faiveley Transport AUSTRALIA Ltd.	Australia	100.00	100.00
Faiveley Transport BELGIUM NV	Belgium	100.00	100.00
Faiveley Transport DO BRASIL Ltda.	Brazil	100.00	100.00
Faiveley Transport CANADA Ltd.	Canada	100.00	100.00
Faiveley Transport FAR EAST Ltd.	China	100.00	100.00
SHANGHAI FAIVELEY RAILWAY TECHNOLOGY Co. Ltd.	China	51.00	51.00
FAIVELEY METRO TECHNOLOGY SHANGHAI Ltd.	China	100.00	100.00
Faiveley Transport RAILWAY TRADING (Shanghai) Co. Ltd.	China	100.00	100.00
Faiveley Transport ASIA PACIFIC Co. Ltd.	China	100.00	100.00
Faiveley Transport KOREA Ltd.	Korea	100.00	100.00
Faiveley Transport IBERICA S.A.	Spain	100.00	100.00
TRANSEQUIPOS S.A.	Spain	100.00	100.00
Faiveley Transport USA Inc.	USA	100.00	100.00
ELLCON NATIONAL Inc.	USA	100.00	100.00
ELLCON DRIVE LLC.	USA	100.00	100.00
AMSTED RAIL–FAIVELEY LLC.	USA	67.50	67.50
Faiveley Transport AMIENS	France	100.00	100.00
Faiveley Transport NSF	France	100.00	100.00
Faiveley Transport TOURS	France	100.00	100.00
Faiveley Transport GENNEVILLIERS	France	100.00	100.00
Faiveley Transport BIRKENHEAD Ltd.	United Kingdom	100.00	100.00
Faiveley Transport TAMWORTH Ltd.	United Kingdom	100.00	100.00
SAB WABCO Ltd.	United Kingdom	100.00	100.00
SAB WABCO DAVID & METCALF Ltd.	United Kingdom	100.00	100.00
SAB WABCO DAVID & METCALF PRODUCTS Ltd.	United Kingdom	100.00	100.00
SAB WABCO INVESTMENTS Ltd.	United Kingdom	100.00	100.00
SAB WABCO PRODUCTS Ltd.	United Kingdom	100.00	100.00
SAB WABCO UK Ltd.	United Kingdom	100.00	100.00
Faiveley Transport INDIA Ltd.	India	100.00	100.00
F.M.R.P.	Iran	51.00	51.00
Faiveley Transport ITALIA Spa	Italy	100.00	98.70
Faiveley Transport POLSKA z.o.o.	Poland	100.00	100.00
Faiveley Transport PLZEN s.r.o.	Czech Republic	100.00	100.00

Entity	Country	% Control	% Interest
Faiveley Transport TREMOSNICE s.r.o.	Czech Republic	100.00	100.00
Faiveley Transport LEKOV a.s	Czech Republic	100.00	100.00
o.o.o. Faiveley Transport	Russia	100.00	98.00
Faiveley Transport METRO TECHNOLOGY SINGAPORE Ltd.	Singapore	100.00	100.00
Faiveley Transport ACQUISITION AB	Sweden	100.00	100.00
Faiveley Transport MALMÖ AB	Sweden	100.00	100.00
Faiveley Transport NORDIC AB	Sweden	100.00	100.00
URS DOLDER AG	Switzerland	80.00	80.00
Faiveley Transport METRO TECHNOLOGY THAILAND Ltd.	Thailand	100.00	100.00
Faiveley Transport METRO TECHNOLOGY TAIWAN Ltd.	Taiwan	100.00	100.00
Proportional consolidation			
QINGDAO FAIVELEY SRI RAIL BRAKE Co. Ltd.	China	50.00	50.00
DATONG FAIVELEY COUPLERS SYSTEMS Co. Ltd.	China	50.00	50.00
Shijiazhuang Jiaxiang Precision Machinery Co. Ltd.	China	50.00	50.00
Accounted for under the equity method			
Nil			

(1) Faiveley Transport Leipzig GmbH & Co. KG, Faiveley Transport Witten GmbH, Faiveley Transport Verwaltungs GmbH, Faiveley Transport KG Holding GmbH and Nowe GmbH, as subsidiaries of the Faiveley Transport Group responsible for the preparation of the consolidated financial statements, made use of the provisions of paragraph 264b of the German Commercial Code as regards the year ended 31 March 2011 and the annual report, given that the financial statements and annual report will not be published.

Legal developments arising during the financial year

- At 31 March 2011, Espas was merged into Faiveley Transport Tours. This merger was recognised for accounting and tax purposes retrospectively, to 1 April 2010.
- Faiveley Transport acquired the remaining 25% minority interests in its Czech subsidiary, Faiveley Transport Lekov, which it now fully owns.
- Faiveley Transport acquired 80% of Swiss company Urs Dolder AG.
- Newly-created companies:
  Amsted Rail–Faiveley LLC (US joint venture for the freight market), 67.5% owned by the Group.

2. LIST OF NON-CONSOLIDATED COMPANIES AS AT 31 MARCH 2011

(€ thousands)	% owned	Carrying amount of investment Gross	Impairment	Net	Equity	Loss for financial year
SUECOBRAS (Brazil)	100	863	(666)	197	196	(16)
SAB WABCO SHARAVAN Ltd. (Iran)	49	11	(11)	–	–	–
SOFAPORT (France)	59.50	47	–	47	33	(5)

H. Statutory auditors fees

Fees payable to the Statutory Auditors and members of their network as part of assignments relating to the closing of accounts at 31 March 2011, as well as fees paid at 31 March 2010 and 31 March 2009 were as follows:

	ECA			DELOITTE		
(€ thousands)	2010/2011	2009/2010	2008/2009	2010/2011	2009/2010	2008/2009
Audit:						
Statutory Auditors, certification, review of individual and consolidated financial statements:						
Parent Company	173	237	334	206	234	309
Subsidiaries	275	287	212	67	76	205
Other assignments directly related to the audit assignment	–	–	–	–	–	–
SUB-TOTAL AUDIT FEES	**448**	**524**	**546**	**273**	**310**	**515**
Other services:						
Legal, tax, corporate	–	–	–	–	–	–
Other	–	–	–	–	–	–
SUB-TOTAL OTHER SERVICES	**–**	**–**	**–**		**–**	**–**
TOTAL	**448**	**524**	**546**	**273**	**310**	**515**

I. Financial communication

A German version of these consolidated financial statements has been filed with the local administration.

STATUTORY AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. The information presented below is an opinion on the consolidated financial statements and includes explanatory paragraphs discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report also includes information relating to the specific verification of information given in the management report. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 March 2011, on:

- the audit of the accompanying consolidated financial statements of Faiveley Transport;
- the justification of our assessments;
- the specific verification required by the law.

The consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and a fair view of the assets and liabilities and of the financial position of the group as at 31 March 2011 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the matter set out in note C-1 to the consolidated financial statements regarding the change of accounting method related to the implementation of "Revised IFRS 3 – business combinations" and "Revised IAS 27 – Consolidated and separate financial statements".

II. Justification of our assessments

In accordance with the requirements of Article L823-9 of the French Commercial Code (code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- At the year-end, the Group systematically performs impairment testing on goodwill and intangible assets with indefinite lives in accordance with the terms and conditions described in Note E-1 to the consolidated financial statements. We have reviewed the methods for implementing this impairment testing as well as the cash flow forecasts and assumptions used and have verified that note E-1 provides appropriate disclosure.
- The Group recognizes income generated on contracts using the percentage of completion method in accordance with the terms and conditions described in note C-6-1 to the consolidated financial statements. These results are dependent on estimates on contract completion performed by contract completion by the company and examining the procedures used by executive management to approve these estimates.
- The Group records provisions to cover miscellaneous liabilities and losses as described in note C-15-2. Our work notably consisted in assessing the financial information and the assumptions on which these estimates have been based, in reviewing, on a test basis, the calculations performed by the Company and in examining the procedures used by executive management to approve these estimates. On this basis, we assessed the reasonableness of estimates made.
- Notes C-15 and E-14-2 specify the valuation methods used to measure pension and other similar related obligations. These obligations have been evaluated by actuaries. Our procedures consisted in examining the financial information used, assessing the assumptions adopted and verifying that notes C-15 and E-14-2 to the consolidated financial statements provide appropriate disclosure.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Dijon, 20 July 2011
The Statutory Auditors

Deloitte Marque & Gendrot
Bénédicte Sabadie-Faure

Expertise Comptable et Audit
Jérôme Burrier

FAIVELEY TRANSPORT PARENT COMPANY FINANCIAL STATEMENTS

AT 31 MARCH 2011

1.4.1. BALANCE SHEET

Assets (€ thousands)	Notes	31 March 2011 Gross	31 March 2011 Amortisation, depreciation, and provision charges	31 March 2011 Net	31 March 2010 Net	31 March 2009 Net
NON-CURRENT ASSETS						
Intangible assets						
Other intangible assets	Note 1	389,917	4,427	385,490	385,742	386,060
In progress	Note 1	11,194	–	11,194	7,095	3,782
Property, plant and equipment						
Buildings	Note 1	106	89	17	23	29
Plant and machinery	Note 1	39	1	38	65	65
Other	Note 1	601	439	162	304	358
Financial assets						
Equity investments	Note 2	417,944	–	417,944	412,663	412,497
Loans and receivable from equity investments	Note 2	139,510	–	139,510	157,316	177,829
Other equity investments	Note 2	492	–	492	434	375
TOTAL (I)		**959,802**	**4,955**	**954,848**	**963,641**	**980,994**
CURRENT ASSETS						
Receivables						
Advances and prepayments on orders	Note 3	179	–	179	56	46
Trade receivables	Note 3	42,069	–	42,069	36,990	41,109
Other receivables	Note 3	3,411	–	3,411	3,476	7,710
Tax grouping	Note 3	0	–	0	1,744	1,354
Cash and cash equivalents						
Marketable securities [(1)]	Note 4	34,306	2	34,304	40,011	31,957
Cash [(2)]	Note 4	252,280	–	252,280	208,947	202,698
Prepaid expenses	Note 11	613	–	613	690	346
Translation difference		57	–	57	1,428	1,947
TOTAL (II)		**332,915**	**2**	**332,914**	**293,342**	**287,167**
TOTAL ASSETS (I + II)		**1,292,717**	**4,956**	**1,287,761**	**1,256,983**	**1,268,161**

(1) Including treasury shares of €22,097 thousand.

(2) Including treasury shares held within the framework of the liquidity contract of €329 thousand.

Equity and liabilities (€ thousands)	Notes	31 March 2011 before allocation	31 March 2010 before allocation	31 March 2009 before allocation
EQUITY				
Share capital	Note 5	14,405	14,405	14,405
Share premium	Note 5	94,045	94,045	94,045
Legal reserve	Note 5	1,440	1,440	388
Regulated reserves	Note 5			0
Other reserves	Note 5			0
Retained earnings	Note 5	86,292	61,883	116
Net profit/(loss)	Note 5	(1,757)	41,308	76,887
Regulated provisions	Note 6	–	–	–
TOTAL EQUITY (I)		**194,426**	**213,082**	**185,841**
PROVISIONS FOR LIABILITIES AND CHARGES	Note 6	960	1,972	2,548
TOTAL (II)		**960**	**1,972**	**2,548**
LIABILITIES				
Loans and borrowings				
Loans and borrowings from credit institutions	Note 7	595,278	617,810	657,485
Other loans and borrowings	Note 7	464,079	387,307	380,772
Other liabilities				
Trade payables	Note 8	13,448	15,633	16,554
Tax and social security liabilities	Note 8	9,172	6,821	4,983
Other liabilities	Note 8	7,209	8,479	3,633
Deferred income	Note 11	–	10	–
Translation difference		3,191	5,870	16,345
TOTAL (III)		**1,092,376**	**1,041,929**	**1,079,772**
TOTAL EQUITY AND LIABILITIES (I + II + III)		**1,287,761**	**1,256,983**	**1,268,161**

1.4.2. INCOME STATEMENT

(€ thousands)	Notes	31 March 2011	31 March 2010	31 March 2009
Sales (ex.VAT)	Note 12	**48,860**	**48,565**	**1,402**
Cost of sales		(42,988)	(42,233)	(251)
GROSS PROFIT		**5,872**	**6,332**	**1,151**
Non-productive fixed costs		(8,023)	(6,541)	(4,803)
Other income		741	135	195
Other expenses		(190)	(161)	(27)
Restructuring costs		–	–	–
OPERATING PROFIT/(LOSS)		**(1,600)**	**(235)**	**(3,484)**
Amortisation and depreciation charges included in operating profit/(loss)		420	381	2
OPERATING PROFIT/(LOSS) AND AMORTISATION AND DEPRECIATION CHARGES		**(1,180)**	**146**	**(3,482)**
Net finance income/(expense)	Note 15	(2,216)	37,156	75,161
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES		**(3,816)**	**36,921**	**71,677**
EXCEPTIONAL INCOME/(EXPENSE)	Note 16	**1,317**	**(244)**	**–**
Employee profit-sharing		–	–	–
Income tax	Note 17	742	4,630	5,210
NET PROFIT/(LOSS)		**(1,757)**	**41,308**	**76,887**

1.4.3. CASH FLOW STATEMENT

(€ thousands)	Notes	31 March 2011	31 March 2010	31 March 2009
Cash flow from operating activities:				
Net profit/(loss)		(1,757)	41,308	76,887
Adjustment for non-cash flow items:				
• Depreciation and amortisation charges		420	381	2
• Provision charges		548	1,429	67
• Provision reversals		(1,560)	(2,005)	(523)
• Gains/(losses) on asset disposals		–	–	–
Self-financing capacity		**(2,349)**	**41,113**	**76,433**
Changes in working capital:				
• Decrease/(increase) in receivables		(1,946)	19,720	4,531
• Increase/(decrease) in payables and accrued expenses		(4,862)	(4,702)	(9,831)
Net cash generated from/(used in) operating activities		**(9,157)**	**56,131**	**71,133**
Cash flow from investing activities				
Purchase of PPE and intangible assets		(4,120)	(3,315)	(388,882)
Proceeds from disposal of PPE and intangible assets		26	–	–
Purchase of financial investments		(5,339)	(1,780)	(4)
Proceeds from sale of financial investments		12,087	10,476	30
Cash arising from acquisitions of subsidiaries		–	–	(8,842)
Net cash generated from/(used in) investing activities		**2,654**	**5,381**	**(397,698)**
Proceeds from share capital increases		–	–	1,875
Other movements in equity		–	–	84,135
Cash dividends paid		(16,899)	(14,069)	(4,269)
Proceeds from new borrowings		–	7,552	292,146
Repayment of borrowings		(59,699)	(32,009)	(480)
Movement in Group current accounts		92,751	3,623	(36,405)
Net cash generated from/(used in) financing activities		**16,153**	**(34,903)**	**337,002**
Net increase/(decrease) in cash and cash equivalents		9,650	26,609	10,437
Cash and cash equivalents at the start of period		48,826	22,217	11,780
CASH AND CASH EQUIVALENTS AT END OF PERIOD	Note 4	**58,476**	**48,826**	**22,217**

1.4.4. NOTES TO THE PARENT COMPANY FINANCIAL STATEMENT

Notes to the parent company financial statements at 31 March 2011. Total assets on this date amounted to €1,287,791 thousand, and the income statement reflected a net profit of €1,757 thousand. The financial period was of 12 months and covered the period from 1 April 2010 to 31 March 2011.

A. Significant events

- **Change to the term of office of the members of the Supervisory Board:**

The Combined General Meeting of 13 September 2010 amended the bylaws of the Company and reduced the term of office of members of the Supervisory Board to three years.

- **Changes in Group governance:**

On 1 September 2010, Guillaume Bouhours was appointed Chief Financial Officer to replace Etienne Haumont. On the same day, Etienne Haumont resigned his term of office as a member of the Management Board.

Robert Joyeux resigned from his duties as Chief Executive Officer and Chairman of the Management Board of Faiveley Transport on 31 March 2011. On 1 April 2011, Thierry Barel, previously Deputy Chief Executive Officer, replaced him in this position and Guillaume Bouhours was appointed as a member of the Management Board.

- **Share option plan:**

The Combined General Meeting of 13 September 2010 delegated the Management Board powers for the allocation of free shares, either new or existing. The General Meeting established a minimum vesting period of two years following which the allocation of ordinary shares to beneficiaries will be final, subject to the potential terms and conditions set out by the Management Board, and a retention period of a minimum of two years from the date of final allocation of the shares.

At its meetings held on 3 December 2010 and 24 February 2011, the Management Board decided to allocate a total of 69,700 shares to 43 beneficiaries.

- **Acquisition of Urs Dolder AG:**

On 24 February 2011, Faiveley Transport acquired 80% of the share capital of Urs Dolder AG for €2.9 million. Urs Dolder AG is based in Haegendorf, Switzerland, and employs 19 people with annual sales of €4 million. The company produces electrical heating devices for the railway industry; more than 30,000 of these devices are currently installed in railway carriages.

- **Acquisition of minority interests in Faiveley Transport Lekov:**

In January 2011, Faiveley Transport acquired the minority interests in Faiveley Transport Lekov, a company based in the Czech Republic, for €2.3 million. Faiveley Transport now fully owns Faiveley Transport Lekov.

- **Change in consolidation scope**

At 31 March 2011, Espas was merged into Faiveley Transport Tours. This merger was recognised for accounting and tax purposes retrospectively, to 1 April 2010.

B. Accounting rules and methods

1. APPLICATION OF ACCOUNTING RULES AND METHODS

The financial statements at 31 March 2011 were prepared in accordance with accounting rules applicable in France:

- the law of 30 April 1983 and its application decree of 29 November 1983;
- the French General Accounting Plan 1999 as described by regulation 1999-03 of the Comité de la Réglementation Comptable and subsequent amendments.

The financial statements and the analyses for the year ending 31 March 2011 were prepared and presented in accordance with accounting rules and in compliance with the principles of:

- prudence;
- matching;
- going concern;
- consistency of methods.

The historic cost method was used to determine accounting values.

2. CHANGE OF METHODS DURING THE YEAR

No changes of methods were introduced by the Company during the year.

3. MEASUREMENT METHOD

The measurement methods described below were used for the various items included in financial statements.

The financial statements were prepared taking account of the following provisions applicable to financial years beginning on or after 1 January 2005:

- CRC regulation n°2002-10 on asset amortisation and impairment;
- CRC regulation n°2004-06 on the definition, recognition and measurement of assets.

3.1. Non-current assets

Non-current assets are recognised at their acquisition cost or at their transfer value in the case of those related to the restructuring operations of previous financial years. In order to recognise an unfavourable technical variance, the latter must be assessed at each year-end. In case there is an indication of impairment, a writedown charge must be recognised in the financial statements

3.2. Amortisation and depreciation of non-current assets

Depreciation and amortisation of non-current assets acquired before 1 April 1993 are measured either on a declining-balance or on a straight-line basis, in accordance with tax requirements. Subsequent acquisitions are amortised or depreciated solely on a straight-line basis, in order to match economic reality more closely. Accelerated tax depreciation is recognised as far as permitted by tax regulations.

The principal periods of amortisation and depreciation are as follows:

- Intangible assets

– Software	1 to 3 years
– Patents	9 to 15 years

- Property, plant and equipment

– Buildings	15 to 20 years
– Misc. equipment and fittings	10 years
– Machinery and industrial equipment	3 to 8 years
– Vehicles	4 years
– Office equipment	3 to 10 years
– IT equipment	3 to 5 years
– Furniture	5 to 10 years

3.3. Equity investments

Equity investments are measured at their purchase and/or contribution value. At the end of the financial year, a provision for impairment is established when the realisable value is lower than its acquisition value. The realisable value is the value in use for the Group, measured on the basis of future discounted cash flows.

3.4. Receivables from equity investments

Receivables from equity investments correspond to loans provided to Group companies, as well as current accounts receivable from subsidiaries (excluding current tax receivables resulting from the Group tax return). A provision is established whenever there is a risk of non-recovery.

3.5. Accounts receivable and payable

Accounts receivable and payable are recorded at nominal value. Provisions have been made for bad and doubtful debts according to the likelihood of non-recovery, as estimated at the end of the financial year. Old accounts for which non-recovery has become a certainty are reported as an expense and the corresponding provisions reversed through the income statement.

3.6. Marketable securities

Marketable securities are recognised at their fair value on the basis of their quoted price or at their liquidation value at the year-end. Marketable securities are subject to impairment when their liquidation value at the financial year-end is lower than their acquisition value.

Treasury shares are included in this caption in accordance with CRC Regulation 2008-5 on treasury shares.

3.7. Share capital

All capital increases are registered at the nominal value of the shares issued. Should the issue price be greater than the nominal value, the difference is recorded in the share premium reserve.

3.8. Provisions for liabilities and charges

Provisions represent liabilities whose due date or amount has not been precisely determined. At 31 March 2011, the provisions amounted to €0.8 million (excluding the provision for the stock options plan of €0.1 million) and were composed of provisions for litigation-related expenses of €0.77 million and provisions for foreign exchange losses of €0.06 million (based on foreign currency accounts receivable and payable valued at the exchange rate on the balance sheet date).

3.9. Share purchase option plan of 27 September 2005

When beneficiaries of the share purchase option plan exercise their rights, a capital loss will be recognised in Faiveley Transport's financial statements. This loss has been estimated at €599 thousand at 31 March 2009 and spread over 7 years (duration of the plan). At 31 March 2010, this provision was reduced to €226 thousand due to options exercised during the period. During the 2010/2011 financial year, 118,074 options were exercised by the beneficiaries. On this occasion, an exceptional expense of €141 thousand was recognised. As a result, the provision for capital losses relating to outstanding options was €93 thousand at 31 March 2011.

3.10. Borrowings and financial liabilities

Financial liabilities and borrowings are valued at their nominal value and comprise:

- a loan of €367 million provided by the bank pool to finance the reorganisation of Faiveley Transport's shareholding structure;
- accrued interest on borrowings of €0.2 million;
- bank overdrafts and cash pooling (managed by the Group treasury department) of €228 million;
- a loan of €27.9 million from its subsidiary Faiveley Transport Malmö;
- current accounts with Group companies of €436 million;
- the balance on the special reserve for employee profit sharing.

3.11. Financial instruments

- **Exchange risk**

Due to the nature of its operations, Faiveley Transport is exposed to exchange risks arising from its holding company activities (including exchange hedging for the benefit of subsidiaries) or loan agreements and on inter-company balances.

In 2010/2011, the major currencies concerned are the US Dollar, the Pound Sterling, the Japanese Yen, the Czech Koruna, the Swedish Krona and the Chinese Yuan. The risks are hedged through forward purchases or sales of currencies and tunnel options.

These external hedge transactions aim to protect the Group against unfavourable fluctuations in foreign currencies that could affect the profit on a contract and are subject to an internal counterpart agreement with subsidiaries.

Information on financial derivatives currently in place to hedge against exchange risk on forward purchases or sales are detailed in the notes to the consolidated financial statements (see note E.16 – Financial instruments and financial risk management).

- **Interest rate risk**

The interest rate risk to which the company is exposed arises as a result of its long-term borrowings. Faiveley Transport concluded a credit agreement with a pool of nine banks for fixed-term borrowings, the balance of which was €339 million and USD 35 million at 31 March 2011.

This credit agreement is based upon variable Euribor and US Dollar Libor interest rates. The agreement commits the Company to hedge at least 60% of the principal due until December 2012.

To manage its risk, the Treasury Department has implemented a hedging strategy using swaps, tunnels and caps for interest rates and options.

The exposure of interest rates on loans in Euros is hedged for between 71% and 100% of the total debt bearing a Euro interest rate, depending on fluctuations for the 2011/2012 period. The exposure of interest rates on loans in US Dollar is fully hedged.

The estimated cost of bank debt in 2011/2012 is 2.64%, including hedges and spreads, for the debt in Euros and 2.81% for the debt in US dollars.

- **Foreign exchange transactions**

Income and expenses in foreign currencies are recorded at the exchange rate on the transaction date.

Foreign currency denominated borrowings, receivables and cash are recorded in the balance sheet at the exchange rate on the balance sheet date. Any exchange difference arising from the revaluation of these items at these exchange rates is taken to “translation differences”.

A provision for exchange risk is set up for unrealised exchange losses derived from overall exchange rates on existing assets and liabilities.

3.12. Income statement

Faiveley Transport continues its activities of providing services to the Group as the holding company. Sales €48.9 million achieved in 2010/2011 were in line with the previous year (€48.6 million). The significant increase of the previous financial year was primarily due to the fact that the transfer of all assets and liabilities of the former Faiveley Transport company, carried out on 31 March 2009, had had no impact on the parent company income statement.

As in the past, Faiveley Transport rebilled a significant portion of its expenses to its subsidiaries. The operating loss was €1.6 million, compared with a loss of €0.2 million for the year ended 31 March 2010. This negative movement was primarily due to the increase in non-production fixed costs of approximately €1.5 million.

The net finance expense was €2.2 million, compared to a net finance income of €37.2 million in the previous year. This movement was primarily due to the collection of exceptional dividends of €45.7 million in 2009/2010. In 2010/2011, dividends of €0.4 million were collected.

Excluding dividends, the net finance expense improved by €6 million during the 2010/2011 financial year. This was due, on the one hand, to a decrease of €0.8 million in interest expense, which relates to current accounts, bank overdrafts and interest on borrowings, partly offset by interest on loans. Faiveley Transport also recorded net foreign exchange gains of €3.6 million and a positive movement of €0.9 million following the release of a provision for foreign exchange losses. The interest expense on the bank borrowings taken out on 23 December 2008 amounted to €9.8 million, compared to €11.8 million in the previous year.

The €0.7 million income tax refund recognised for the year ended 31 March 2011 reflects the tax grouping gain of €1.5 million achieved during the period, reduced by the tax charge generated by the German subsidiaries, Faiveley Transport Holding Gmbh & Co KG and Faiveley Transport Leipzig GmbH & Co KG for €0.7 million and increased by a withholding tax credit of €0.1 million.

C. Notes to balance sheet and income statement

1. NON-CURRENT ASSETS

- **Changes in the period**

	Gross at 1 April 2010	Acquisitions	Disposals	Gross at 31 March 2011
Intangible assets[(1)]	389,900	17	–	389,917
Intangible assets in progress	7,095	4,099	–	11,194
General fittings, fixtures and miscellaneous	629	–	(26)	603
Equipment, office and computer equipment, furniture	139	4	–	143
Advance and deposit on non-current assets	–	–	–	–
TOTAL	**397,763**	**4,120**	**(26)**	**401,857**

(1) This caption includes the €384.8 million unfavourable technical variance recognised as part of the transfer of all assets and liabilities of Faiveley Transport and Faiveley Management during the financial year ended 31 March 2009. This technical variance was subject to an impairment test at 31 March 2011, which did not highlight the need for a writedown charge to be recognised in the financial statements.

- **Amortisation, depreciation and writedowns**

	At 1 April 2010	Charges	Decreases	At 31 March 2011
Intangible assets	4,158	269	–	4,428
General fittings, fixtures and miscellaneous	261	143	–	404
Equipment, office and computer equipment, furniture	116	8	–	124
TOTAL	**4,535**	**420**	**–**	**4,955**

2. FINANCIAL INVESTMENTS

2.1. Movement in year

	Gross at 1 April 2010	Acquisitions/ Increases	Disposals/ Decreases	Gross 31 March 2011
Equity investments	412,663	5,281	–	417,944
Loans receivable from equity investments	157,316	3,159	(20,965)	139,510
Other equity investments	434	58	–	492
TOTAL	**570,413**	**8,498**	**(20,965)**	**557,946**

2.2. Maturity of receivables

	Less than 1 year	Between 1 and 5 years	More than 5 years	Net at 31 March 2011
Loans and receivables from equity investments	37,426	63,355	38,729	139,510
Other equity investments	184	229	79	492
TOTAL	**37,610**	**63,584**	**38,808**	**140,002**

3. RECEIVABLES

	Less than 1 year	More than 1 year	Net at 31 March 2011	Net at 31 March 2010	Net at 31 March 2009
Trade and other accounts receivable	42,069	–	42,069	36,990	41,109
Other receivables – advances and payments to account	3,590	–	3,590	3,532	7,756
Tax grouping	–	–	–	1,744	1,354
TOTAL	**45,659**	**–**	**45,659**	**42,266**	**50,219**

4. CASH AND MARKETABLE SECURITIES (GROSS)

	31 March 2011	31 March 2010	31 March 2009
Marketable securities(1)	34,306	40,012	31,959
Cash(2)	252,280	208,947	202,698
Bank overdrafts	(228,110)	(200,133)	(212,440)
TOTAL	**58,476**	**48,826**	**22,217**

(1) including treasury shares of €22,097 thousand.

(2) including treasury shares held within the framework of the liquidity contract of €329 thousand.

5. EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Profit for the year	Total
Balance at 31 March 2009	**14,405**	**94,045**	**388**	**116**	**76,887**	**185,841**
Allocation of 2008/2009 profit	–	–	1,052	75,835	(76,887)	–
Dividends paid	–	–	–	(14,068)	–	(14,068)
Profit/(loss) for the year	–	–	–	–	41,308	41,308
Other movements	–	–	–	–	–	–
Balance at 31 March 2010	**14,405**	**94,045**	**1,440**	**61,883**	**41,308**	**213,081**
Allocation of 2009/2010 profit	–	–	–	41,308	(41,308)	–
Dividends paid	–	–	–	(16,899)	–	(16,899)
Profit/(loss) for the year	–	–	–	–	(1,757)	(1,757)
Other movements	–	–	–	–	–	–
BALANCE AT 31 MARCH 2011	**14,405**	**94,045**	**1,440**	**86,292**	**(1,757)**	**194,425**

5.1. Share capital

At 31 March 2011, the share capital of the company was €14,404,711, divided into 14,404,711 shares of €1 each, fully paid. Nominative shares recorded in the name of the same holder for at least two years (7,917,977 shares at 31 March 2011) benefit from a double voting right.

- **Analysis of share capital**

Shares	31 March 2010	Created	Repaid	31 March 2011	Nominal value
Ordinary	6,759,591	–	–	6,486,734	1
Amortised	–	–	–	–	–
With priority dividends	–	–	–	–	–
With double voting rights	7,645,120	–	–	7,917,977	1
TOTAL	**14,404,711**	**–**	**–**	**14,404,711**	**1**

- **Treasury shares**

The Company directly and indirectly held 3.21% of its share capital.

- **Employee participation in the share capital of the Company**

FCPE Faiveley held 15,500 shares (0.11%) in the Company.

- **Share purchase option plan of 27 September 2005**

On request from Faiveley Transport, Faiveley S.A. (now called Faiveley Transport) implemented a share option plan for the benefit of key Faiveley Transport Group management (excluding the managers who invested in Faiveley Management).

This share option plan, for a maximum of 325,000 Faiveley S.A. shares, was approved by the General Meeting of 27 September 2005 and implemented by the Management Board. Granted for a period of 3 years, this authorisation lapsed on 27 September 2008.

In order to meet its obligation to transfer these shares to the plan beneficiaries, Faiveley Transport began a share buyback programme at the end of 2005 and held 462,777 treasury shares (including 4,924 shares via its liquidity contract) at 31 March 2011. The options to purchase shares, if exercised, will give rise to the purchase of existing ordinary shares in Faiveley Transport.

- **Principle features of the current share purchase option plan**

Date of allocation	Number of shares allocated	Of which Executive Committee	Subscription price*	Options cancelled	Options exercised	Number of options outstanding
24 November 2005	221,760	26,880	26.79	47,040	142,109	32,611
29 December 2005	6,20	–	29.75	–	6,720	–
22 June 2006	31,360	–	30.48	4,480	21,320	5,560
25 October 2006	6,720	–	33.77	–	6,720	–
15 November 2006	4,480	–	34.13	–	4,480	–
1 December 2006	11,200	–	34.01	–	7,330	3,870
2 April 2007	26,880	–	42.80	–	6,720	20,160
19 February 2008	26,880	6,720	32.31	–	3,100	23,780
29 March 2008	13,440	–	34.08	4,480	–	8,960
16 July 2008	22,600	22,600	40.78	–	–	22,600
TOTAL	**372,040**	**56,200**		**56,000**	**198,499**	**117,541**

(*) The exercise price is equal to the average price of the twenty trading days prior to the date of the Management Board deciding on the allocation, less a discount of 5%.

Following the departure of certain option holders since the Management Board implemented the plan and options exercised until that date, options granted at 31 March 2011 related to 117,541 shares and 23 beneficiaries.

The options can be exercised from the second anniversary of their grant date by the Chairman of the Management Board, subject to the presence of the beneficiaries within the Faiveley Transport Group on the day of exercise and their acceptance of the option regulations. To date, 198,499 options have been exercised.

- **Share subscription option plan of 22 September 2009**

The Combined General Meeting of 22 September 2009 delegated the Management Board powers in relation to:
- granting share subscription and/or purchase options;
- issuing shares or marketable securities giving right to the allocation of new or existing shares of the Company, with, in the case of the allocation of new shares, the cancellation of the pre-emption right.

At its meeting of 23 November 2009, the Management Board decided to allocate, from that date and up to 23 November 2017, options giving right to subscribe for new shares of the Company, to be issued as part of a capital increase, for a total amount not exceeding €144,000, corresponding to 144,000 new shares of a par value of €1 each. The new shares will be issued at a price of €54.91 each.

- **Main features of the current share subscription option plan**

Date of allocation	Number of shares allocated	Of which Executive Committee	Subscription price	Options cancelled	Options exercised	Number of options outstanding
23 November 2009	144,000	128,500	54.91	–	–	144,000
TOTAL	**144,000**	**128,500**		**–**	**–**	**144,000**

- **Free performance-based share allocation plan**

Faiveley Transport's Combined General Meeting of 13 September 2010 delegated the Management Board powers for the allocation of free performance-based shares, either existing or to be issued, within the limit of 1% of the share capital at 13 September 2010.

At its meetings of 3 December 2010 and 24 February 2011, the Management Board allocated a total of 69,700 existing shares to 43 beneficiaries.

- **Main features of the current free share allocation plan**

Allocation date	Number of free shares granted	Of which to Executive Committee members	Free shares lapsed
3 December 2010	64,500	43,300	–
24 February 2011	5,200	–	–

After taking into account the purchase price of Faiveley transport shares purchased to service these stock option, share subscription and free share allocation plans, the exercise prices established and the price of Faiveley transport shares at 31 March 2011 applied to unallocated options, the unrealised capital gain amounted to €1,080 thousand.

5.2. Share premium

The share premium represents the difference between the nominal value of securities and the amount, net of costs, received in cash or kind at the time of the issue. There were no movements over the 2010/2011 financial year.

6. REGULATED PROVISIONS AND PROVISIONS FOR LIABILITIES AND CHARGES

	1 April 2010	Charges	Used reversals	Unused reversals	31 March 2011
Accelerated depreciation	–	–	–	–	–
REGULATED PROVISIONS	**–**	**–**	**–**	**–**	**–**
Provisions for liabilities	1,458	57	(1,428)	–	87
Provisions for taxes	–	–	–	–	–
Provisions for litigation	280	490	–	–	770
Provisions for option plans	226	–	(132)	–	94
Provisions for employee compensation	8	1	–	–	9
PROVISIONS FOR LIABILITIES AND CHARGES	**1,972**	**548**	**(1,560)**	**–**	**960**

7. LOAN AND BORROWINGS

	Less than 1 year	More than 1 year	31 March 2011	31 March 2010	31 March 2009
Loans and borrowings from credit institutions	277,142	318,136	595,278	617,810	657,485
Employee profit-sharing	–	65	65	65	65
Other borrowings[1]	9,310	18,619	27,929	37,120	34,208
Current accounts	436,055	–	436,055	350,122	346,499
TOTAL	**722,507**	**336,820**	**1,059,327**	**1,005,117**	**1,038,257**

(1) Other borrowings at 31 March 2011, corresponds to the loan contracted with its subsidiary Faiveley Transport Malmö of €27.9 million.

During the financial year, loans and borrowings from credit institutions decreased by €22.5 million. This decline primarily related to a €50.5 million repayment of the loans taken out on 23 December 2008, offset however by a €28 million increase in bank overdrafts.

This debt is subject to a number of financial conditions with regard to the Group's financial structure and profitability.

The Faiveley Transport Group must comply with the following three financial conditions:
- leverage ratio (net consolidated borrowings/consolidated EBITDA): must not exceed 2.50 at 31 March 2011. At this date, the ratio was 1.15;
- gearing ratio (net consolidated borrowings/consolidated equity): must not exceed 1.50 at 31 March 2011. At this date, the ratio was 0.35;
- total bank guarantees must not exceed 22% of the consolidated order book following the amendment signed in March 2010. At 31 March 2011, this was 15.00%.

Non-compliance with one of these conditions could render the outstanding debt repayable immediately.

Other borrowings decreased by €9.2 million. This decline was due to the repayment of the Swedish Krona-denominated loan granted by the Faiveley Transport Malmö subsidiary.

Current accounts payable balances increased by €86 million at 31 March 2011.

8. OTHER LIABILITIES

	Less than 1 year	More than 1 year	31 March 2011	31 March 2010	31 March 2009
Trade payables	13,448	–	13,448	15,633	16,554
Tax and social security liabilities[1]	9,172	–	9,172	6,821	4,983
Group tax payable	4,811	–	4,811	2,923	1,060
Other	2,398	–	2,398	5,556	2,573
TOTAL	**29,829**	**–**	**29,829**	**30,933**	**25,170**

(1) The tax liability relating to the company Faiveley Transport Holding Gmbh and Co KG was recorded under Other liabilities at 31 March 2009, for an amount of €1,282 thousand. At 31 March 2010, this liability was reclassified under Tax and social security liabilities, for €1,621 thousand. At 31 March 2011, this liability was classified as Tax and social liabilities, for €1,415 thousand.

9. DEFERRED EXPENSES

None.

10. ACCRUED EXPENSES AND ACCRUED INCOME

10.1. Accrued expenses

Accrued expenses included in the following balance sheet captions	2010/2011	2009/2010	2008/2009
Loans and borrowings	298	312	2,534
Trade payables	1,149	1,755	2,107
Tax and social security liabilities	5,027	5,738	3,538
Liabilities for non-current assets	–	–	–
Other	–	475	1,435
TOTAL	**6,474**	**8,280**	**9,614**

10.2. Accrued income

Accrued income included in the following balance sheet captions	2010/2011	2009/2010	2008/2009
Receivables from associates	1,292	–	–
Trade receivables	23,440	245	1,574
Other receivables	–	183	163
Supplier receivables	18	581	6
Tax and social security receivables	21	18	31
Cash and cash equivalents	–	–	–
TOTAL	**24,771**	**1,027**	**1,774**

11. PREPAID EXPENSES AND DEFERRED INCOME

	2010/2011	2009/2010	2008/2009
Operating expenses	613	690	346
Financial expenses	–	–	–
Exceptional expenses	–	–	–
PREPAID EXPENSES	**613**	**690**	**346**
Operating income	–	10	–
Financial income	–	–	–
Exceptional income	–	–	–
DEFERRED INCOME	**–**	**10**	**–**

12. ANALYSIS OF SALES BY SEGMENT AND GEOGRAPHIC AREA

Segment	2010/2011	2009/2010	2008/2009
Provision of services	48,854	48,559	799
Rental/hire	6	6	603
TOTAL	**48,860**	**48,565**	**1,402**

Geographic area	2009/2010	2009/2010	2008/2009
France	15,476	16,887	1,402
EU	24,274	24,912	–
Non EU	9,110	6,766	–
TOTAL	**48,860**	**48,565**	**1,402**

13. RESEARCH AND DEVELOPMENT COSTS

None in Faiveley Transport's parent company financial statements.

14. PERSONNEL COSTS

	2010/2011	2009/2010	2008/2009
Salaries	11,169	9,455	199
Social security charges	4,108	3,042	51
TOTAL	**15,277**	**12,497**	**250**

15. FINANCIAL INCOME/(EXPENSE)

	2010/2011	2009/2010	2008/2009
Cash dividends received	376	45,673	78,700
Income from marketable securities	205	491	34
Interest on current accounts, loans, borrowings and overdrafts	(8,970)	(9,858)	(3,456)
Realised foreign exchange gains and losses	4,453	829	–
Charges and reversals on financial investments	1,503	577	522
Other financial income and charges	217	(556)	(639)
TOTAL	**(2,216)**	**37,156**	**75,161**

16. EXCEPTIONAL INCOME AND EXPENSES

	2010/2011	2009/2010	2008/2009
Income/(expense) on disposals of financial investments	(141)	(244)	–
Other[1]	1,458	–	–
TOTAL	**1,317**	**(244)**	**–**

(1) The exceptional income is primarily due to the technical dispute with Acela Amtrack, arbitrated in November 2010.

17. INCOME TAX

17.1. Analysis of income tax between the current tax charge, exceptional income and accounting profit

	Before tax	Tax	After tax
Profit/(loss) from ordinary activities	(3,816)	–	(3,816)
Exceptional income	1,317	–	1,317
Effect of tax grouping	–	742	742
ACCOUNTING PROFIT/(LOSS)	**(2,499)**	**742**	**(1,757)**

17.2. Tax grouping

Faiveley Transport heads a tax grouping that comprises Faiveley Transport Tours, Faiveley Transport Amiens, Faiveley Transport Gennevilliers and Faiveley Transport NSF.

Tax savings achieved as part of this tax grouping are recognised and retained by the parent company. For the year ended 31 March 2011, the tax grouping generated a tax saving of €1.5 million, offset by the €0.7 million tax charge of its German subsidiaries.

Without the tax grouping, the taxable profit of Faiveley Transport alone, which was a loss of €5.2 million, would not have attracted any income tax.

At 31 March 2011, tax losses carried forward were €1.2 million. Since these losses originated prior to the merger between Faiveley S.A. and Faiveley Transport, they may be offset against any of Faiveley Transport's future profits.

17.3. Exceptional tax assessments

None

17.4. Deferred and unrealised tax position

Description	Amount
Taxes payable on:	
Regulated provisions:	–
Provisions for price increases	–
TOTAL INCREASE	**–**
Prepaid tax on:	
Non deductible temporary timing differences on expenses (deductible in subsequent year):	
- Provision for Directors' fees	150
- Paid holidays	708
- Liability translation adjustment	3,191
- Other (organic, construction work)	147
Total decrease	4,196
NET DEFERRED TAX POSITION	**4,196**

18. TRANSLATION DIFFERENCES

Positive and negative translation differences arise on the translation of trade receivables and payables and on borrowings, loans and foreign currency denominated bank accounts at balance sheet date exchange rates.

Type of translation difference	Unrealised losses (asset)	Translation differences covered by hedge contracts	Provision for exchange of loss	Unrealised gains (liabilities)
Subsidiary loans	–	–	–	2,678
Subsidiary borrowings	–	–	–	–
Bank borrowings	–	–	–	461
Foreign currency-denominated bank accounts	–	–	–	42
Foreign currency-denominated trade receivables	38	–	38	–
Foreign currency-denominated trade payables	19	–	19	10
TOTAL	**57**	**–**	**57**	**3,191**

D. Other information

1. POST BALANCE SHEET EVENTS

As of 1 April 2011, Thierry Barel was appointed as Chairman of the Management Board and Chief Executive Officer and Guillaume Bouhours was appointed as a member of the Management Board.

2. INFORMATION ON NON-TAX DEDUCTIBLE EXPENSES

Non-tax deductible expenses were €26,322 at 31 March 2011.

3. AVERAGE WORKFORCE

The average workforce significantly increased due to the transfer of Faiveley Transport employees as part of the transfer of all assets and liabilities of this company which was executed on 31 March 2009. Foreign offices workforce is included.

	2010/2011	2009/2010	2008/2009
Managers	68	57	–
Supervisors	2	9	3
Employees	19	–	–
TOTAL	**89**	**66**	**3**

4. DIRECTORS' REMUNERATION

Supervisory Board members received a total of €138,800 thousand in attendance fees.

5. IDENTITY OF PARENT COMPANY

Faiveley Transport fully consolidates the subsidiaries in which it directly or indirectly holds over 50% of the share capital. Companies in which Faiveley Transport exercises joint control, whether directly or indirectly, are proportionally consolidated.

6. TRANSACTIONS WITH RELATED COMPANIES AND PARTIES

6.1. With related companies

Share of financial investments, receivables, payables, income and expenses concerning related parties:

Related companies	2010/2011	2009/2010	2008/2009
Equity investments	417,944	412,663	412,497
Receivables from associates	138,218	157,316	177,829
Trade receivables	41,942	36,990	41,108
Other receivables	1,310	2,509	1,211
Loans and other borrowings	463,983	387,242	380,707
Trade and other payables	10,576	11,890	11,811
Other liabilities	4,879	3,702	3,082
Provision of services	49,273	48,559	798
Operating expenses	20,069	20,254	–
Financial expenses	2,718	2,252	76
Financial income	4,594	50,247	78,869

6.2. With related parties

No significant transaction and/or potential transactions were concluded at arm's length.

7. OFF-BALANCE SHEET COMMITMENTS

a/ Commitments given

	2010/2011	2009/2010	2008/2009
Guarantees – securities-collateral given to financial institutions	42,539	60,907	42,427
Retirement benefits(1)	452	565	377
Parent company guarantees	308,065	205,962	217,008
Debts guaranteed by collateral:			
- Mortgage over buildings	–	–	–
- Shares pledged	289,317	289,317	325,578
- Pledge of equipment	–	–	–

(1) Retirement assumptions:

The discount rates are determined by reference to the yields on AAA bonds for the equivalent periods to the commitments at the date of valuation.

The assumptions adopted to calculate the retirement commitments are disclosed in the table below:

	2010/2011	2009/2010	2008/2009
Discount rate	4.80%	4.60%	5.50%
Inflation rate	2.00%	2.00%	2.00%
Average rate of salary increase	3.00%	3.00%	3.00%
Yield expected on investments	N/A	N/A	N/A

b/ Finance lease commitments

Description	Land	Buildings	Materials and equipment	Other non-current assets	Total
Opening value	–	–	–	1,079	1,079
Depreciation and amortisation	–	–	–	–	–
NET VALUE	**–**	**–**	**–**	**1,079**	**1,079**
Lease payments for the current period	–	–	–	435	435
TOTAL	**–**	**–**	**–**	**435**	**435**
Lease payments due:					
1 year or less	–	–	–	258	258
1 to 5 years	–	–	–	–	–
over 5 years	–	–	–	–	–
TOTAL	**–**	**–**	**–**	**258**	**258**

c/ Hedging commitments

- **Interest rate risk**

The main interest rate risk to which the Group is exposed originates from long term borrowings.

To manage its interest rate risk, the Treasury Department has implemented a hedging strategy using swaps, tunnels, caps and options.

The exposure to interest rates on Euro-denominated borrowings is hedged for between 71% and 100% of the total debt drawn down based on Euro interest rate fluctuations for the 2011/2012 period. The US Dollar-denominated debt is fully hedged.

The estimated cost of bank debt for 2011/2012 is 2.64%, including hedges and spreads for the debt in Euros, and 2.81% for the debt in US dollars.

- Instruments recognised under equity

	Euro borrowings		USD borrowings			
	Nominal value (€ thousand)	Fair value (€ thousand)	Nominal value (USD thousand)	Fair value (USD thousand)	Nominal value (€ thousand)	Fair value (€ thousand)
Swap	145,000	311	41,369	(997)	29,119	(702)
Tunnel	112,500	(124)	–	–	–	–
Cap	70,000	(15)	–	–	–	–
TOTAL	**327,500**	**172**	**41,369**	**(997)**	**29,119**	**(702)**

- **Exchange risks**

The Group operates in foreign countries and is therefore exposed to exchange risk as a result of various foreign currency exposures.

The principal currencies concerned are the Chinese Yuan, the US Dollar, the Pound Sterling, the Czech Koruna and the Swedish Krona. The instruments primarily used are forward purchases and sales. The Treasury Department may also use swaps, options and tunnels.

– Forward sales used to hedge business transactions at 31 March 2011

	Nominal value (€ thousands)	Nominal value (thousands of foreign currency)	Fair value (€ thousands)
US Dollar	55,425	74,946	2,103
Pound Sterling	32,041	27,688	1,324
Chinese Yuan	26,872	239,202	829
Singapore Dollar	20,678	28,767	–
Swedish Krona	18,798	168,582	(232)
Hong-Kong Dollar	7,190	76,053	293
Australian Dollar	7,148	14,567	(63)
Czech Koruna	3,425	84,287	(11)
Swiss Franc	1,672	2,156	2
Brazilian Real	1,494	3,624	(57)
Japanese Yen	491	54,108	28
Indian Rupee	183	10,851	14
Korean Won	154	223,815	10
TOTAL	**175,571**		**4,240**

– Forward purchases used to hedge business transactions at 31 March 2011

	Nominal value (€ thousands)	Nominal value (thousands of foreign currency)	Fair value (€ thousands)
US Dollar	44,244	60,951	(2,642)
Swedish Krona	42,422	373,504	462
Czech Koruna	35,572	895,843	1,011
Pound Sterling	27,593	23,439	(1,263)
Chinese Yuan	17,992	136,592	(93)
Hong-Kong Dollar	17,426	181,698	(901)
Australian Dollar	1,316	1,816	(19)
TOTAL	**186,564**		**(3,445)**

– A HKD-denominated project is partly hedged by options:

- a tunnel of €2 million, with a fair value of (€207 thousand) at 31 March 2011;
- sale of a call option of €1 million, with a fair value of (€109 thousand) at 31 March.

- **Derivative instruments**

The fair value of derivative instruments used to hedge against foreign exchange, interest rate and raw material risks was recognised in the balance sheet as follows:

	31 March 2011 Interest rate hedge	31 March 2011 Foreign exchange hedge	31 March 2011 Raw material hedge	31 March 2011 Total
Financial instruments - Assets	1,135	6,484	–	7,619
Financial instruments - Liabilities	1,603	6,424	25	8,052
Unrealised capital gains/(losses) taken to equity	(635)	278	(25)	(382)

d/ Commitments received

None.

e/ Individual training right (ITR)

The employees of Faiveley Transport are entitled to request additional training. A total of 19 hours of training in respect of the ITR was requested by employees during the financial year. At 31 March 2011, a total of 2,678 unused training hours had been accumulated.

f/ Share purchase option plan of 27 September 2005

On request from Faiveley Transport, Faiveley S.A. implemented, a share purchase option plan for the benefit of key Faiveley Transport Group management (excluding the managers who invested in Faiveley Management S.A.S.).

This share option plan, for a maximum of 325,000 Faiveley Transport shares, was approved by the General Meeting on 27 September 2005 and was implemented by the Management Board. The table in Note C.5.1 "Share capital", details the share allocations. 117,541 shares were outstanding at 31 March 2011.

The options are exercisable as of the second anniversary date of their allocation by the Chairman of the Management Board, provided the beneficiary is still employed by the Faiveley Transport Group on the day of exercise and has accepted the options terms and conditions. The shares are not transferable until the 4th anniversary of the allocation of purchase options. It should be noted that 198,499 share purchase options were exercised at 31 March 2011.

g/ Share subscription plan of 22 September 2009

The Combined General Meeting of 22 September 2009 delegated to the Management Board powers in relation to:
- granting share subscription and/or purchase options;
- issuing shares or marketable securities giving right to the allocation of new or existing shares of the Company, with, in the case of the allocation of new shares, the cancellation of the pre-emption right.

At its meeting of 23 November 2009, the Management Board decided to grant, on this date and up to 23 November 2017, options giving right to subscribe to new shares in the Company, to be issued through a share capital increase not exceeding an overall nominal amount of €144,000, corresponding to 144,000 new shares at a par value of €1 each. The new shares will be issued at a price of €54.91.

h/ Free performance-based share allocation plan

The Combined General Meeting of 13 September 2010 delegated the Management Board powers to allocate free shares of the Company, either new or existing shares. The General Meeting established a minimum vesting period of two years following which the allocation of ordinary shares to beneficiaries will be final, subject to the potential terms and conditions set out by the Management Board, and a retention period of a minimum of two years from the date of final allocation of the shares.

In its meetings held on 3 December 2010 and 24 February 2011, the Management Board decided to allocate a total of 69,700 shares to 43 beneficiaries.

8. Statutory Auditors' fees

Statutory Auditors' fees are included in Note H of the 2010/2011 consolidated financial statements.

9. LIST OF SUBSIDIARIES AND EQUITY INVESTMENTS (IN THOUSANDS OF EURO)

Subsidiary	Share Capital	Equity (other than share capital)	% of share capital held	Value of shares held	Net value of shares held	Loans and advances	Guarantees and commitments issued	Sales excluding tax	Dividends received
Faiveley Transport AMIENS	8,100	52,321	100	20,000	20,000	–	3,714	94,624	–
Faiveley Transport NSF	983	11,251	100	12,758	12,758	–	2,887	24,016	–
Faiveley Transport TOURS	39,965	49,095	100	39,422	39,422	–	4,276	132,986	–
Faiveley Transport GENNEVILLIERS	5,000	(123)	100	5,000	5,000	17,625	–	14,653	–
SOFAPORT	96	(67)	60	36	36	20	–	–	–
Faiveley Transport ACQUISITION AB	114	21,381	100	156,409	156,409	35,376	–	–	–
Faiveley Transport PLZEN	8	368	100	6	6	–	–	2,182	–
Faiveley Transport USA Inc.	1	9,786	100	13,052	13,052	35,561	8,966	–	–
QINGDAO FAIVELEY SRI RAIL BRAKE Co. Ltd. (1)	3,225	1,787	50	1,486	1,486	–	7,795	33,553	–
DATONG FAIVELEY COUPLERS SYSTEMS Co. Ltd. (1)	537	17	50	237	237	–	–	1,082	–
Faiveley Transport ASIA PACIFIC Co. Ltd.	–	(9)	100	–	–	821	–	–	–
Faiveley Transport LEIPZIG GmbH & Co KG	16,000	2,671	100	23,111	23,111	–	80,821	76,090	–
NOWE GmbH	125	3,429	75	2,007	2,007	–	25	14,443	276
Faiveley Transport HOLDING GmbH & Co KG	10	149,797	100	90,010	90,010	–	–	–	–
Shijiazhuang Jiaxiang Precision Machinery Co. Ltd (1)	3,869	4,635	50	1,892	1,892	–	–	15,729	–
Faiveley Transport IBERICA S.A.	871	35,041	100	1,390	1,390	15,668	3,412	83,715	–
Faiveley Transport do BRASIL Ltda.	9,036	13,259	100	4,258	4,258	1,462	–	25,672	–
Faiveley Transport ITALIA Spa.	1,424	69,877	98.70	37,827	37,827	22,765	24,953	112,876	–
Faiveley Transport TAMWORTH Ltd.	57	6,045	100	66	66	–	–	7,664	–
Faiveley Transport FAR EAST Ltd.	–	10,326	100	–	–	3,541	24,308	35,316	–
Faiveley Transport LEKOV a.s.	2,176	7,048	100	5,884	5,884	2,954	1,220	26,428	–
F.M.R.P.	966	(447)	48	166	166	–	–	66	–
Faiveley Transport CANADA Ltd.	–	2	100	–	–	–	51,077	1,008	–
URS DOLDER AG	77	790	80	2,926	2,926	–	–	313	–

(1) Data reported at the local 31 December 2010 year-end.

1.4.5. FAIVELEY TRANSPORT 5-YEAR FINANCIAL SUMMARY

	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
I. Share capital at year-end					
a. Share capital	12,529,585	12,529,585	14,404,711	14,404,711	14,404,711
b. Number of ordinary shares in issue	12,529,585	12,529,585	14,404,711	14,404,711	14,404,711
c. Share per value	1	1	1	1	1
d. Number of preference dividend shares (without voting rights) in issue	–	–	–	–	–
e. Maximum number of shares to be issued					
1. by conversion of bonds	–	–	–	–	–
2. by exercise of subscription rights	–	–	–	–	–
3. by exercise of equity warrants	–	–	–	–	–
II. Operations and results for the financial year					
a. Sales (ex VAT)	2,352,315	1,410,338	1,401,867	48,564,676	48,860,272
b. Profit before tax, amortisation, depreciation and provision charges and profit-sharing	71,130	73,880	71,223,334	36,482,013	(3,091,896)
c. Income tax	–	–	(5,209,593)	(4,630,407)	(741,771)
d. Employee profit-sharing for the period	–	–	–	–	–
e. Profit before tax, amortisation, depreciation and provision charges and profit-sharing	38,626	2,153,971	76,886,871	41,307,869	(1,757,424)
f. Cash dividends paid	10,023,668	4,385,355	14,404,711	17,285,653	17,285,653
III. Earnings per share					
a. Earnings per share after tax, but before amortisation, depreciation and provision charges	0.01	0.01	5.31	2.85	(0.16)
b. Earnings per share after tax and amortisation, depreciation and provision charges	0.00	0.17	5.34	2.87	(0.12)
c. Cash dividend per share	0.80	0.35	1.00	1.20	1.20
IV. Workforce					
a. Average workforce for the period	5	4	3	66	89
b. Total payroll for the period	909,731	141,148	199,443	9,447,515	11,169,044
c. Total sums paid as employee benefits over the period (social security contributions, charities, etc.)	230,223	53,599	51,164	3,049,558	4,108,527

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. The information presented below is an opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with our assignment as auditors at your annual general meeting, we hereby report to you for the year ended 31 March 2011 on:

- the audit of the accompanying financial statements of Faiveley Transport;
- the justification of our assessments;
- the specific procedures and disclosures required by law.

These financial statements have been approved by the management board. Our role is to express an opinion on these financial statements, based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the Company as of 31 Mach 2011 and the results of its operations for the year ended in accordance with accounting principles generally accepted in France.

II. Justification of assessments

Pursuant to Article L823-9 of French Commercial Code (code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

As indicated in note B.3.3 to the financial statements, non consolidated investments are valued at their value in use for the company at the year-end. Our procedures consisted in assessing the financial information and assumptions on which these estimates are based and reviewing the calculations performed by the company. On this basis, we assessed the reasonableness of estimates made.

These assessments were performed as part of our audit approach for the financial statements taken as a whole and contributed to the expression of the unqualified opinion in the first part of this report.

III. Specific procedures and disclosures

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no comment to make as to the fair presentation and consistency with the financial statements of the information given in the management board's report and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L. 225-102-1 of the French Commercial Code *(code de commerce)* relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine et Dijon, 20 July 2011

The Statutory Auditors

Deloitte Marque & Gendrot
Bénédicte Sabadie-Faure

Expertise Comptable et Audit
Jérôme Burrier

STATUTORY AUDITORS' SPECIAL REPORT

ON REGULATED AGREEMENTS AND COMMITMENTS ANNUAL GENERAL MEETING TO APPROVE THE FINANCIAL STATEMENTS AT 31 MARCH 2011

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. The information presented below is an opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present our report on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or of which we would have become aware, without expressing an opinion on their usefulness and appropriateness and without identifying the existence of any further agreements and commitments, if any. It is your responsibility, pursuant to Article R. 225-38 of the French Commercial Code, to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in Article R. 225-58 of the French Commercial Code relating to the implementation, during the past year, of agreements and commitments previously approved by the General Meeting, if any.

We have conducted our procedures in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie nationale des commissaires aux comptes) relating to this assignment. Those procedures consisted in verifying the information provided to us with the relevant source documents.

Agreements and commitments submitted for the approval of the Annual General Meeting

AGREEMENTS AND COMMITMENTS AUTHORISED DURING THE YEAR

Pursuant to Article L.225-86 of the French Commercial Code, we have been advised of the following agreements and commitments that received the prior authorisation of your Supervisory Board.

With Etienne Haumont

Amendment of 13 September 2010 to the Memorandum of Understanding of 16 October 2008

Senior manager concerned: Etienne Haumont

(Supervisory Board meeting of 11 June 2010)

As part of its capital restructuring operations, Faiveley Transport signed a memorandum of understanding (MOU) on 16 October 2008 and an amendment to this MOU on 17 November 2008 with the managers and their spouses who are partners in Faiveley Management SAS.

Within the framework of this memorandum of understanding and this amendment, Etienne Haumont received 58,588 Faiveley Transport shares in exchange for 68,513 Faiveley Management shares provided to Faiveley Transport.

Etienne Haumont is committed to retaining all his Faiveley Transport shares for two years with effect from 23 December 2008 and two thirds of his shares for three years with effect from 23 December 2008.

In addition, for a period of six years beginning on 23 December 2008, any disposal of a block of more than 10,000 Faiveley Transport shares is subject to a pre-emption right by Faiveley Transport.

The amendment to the memorandum of understanding signed on 13 September 2010 between Etienne Haumont and Faiveley Transport, represented by Robert Joyeux, discharged Etienne Haumont from his obligation to retain his Faiveley Transport shares and from related terms and conditions.

Agreements and commitments previously authorised by the Annual General Meeting

Agreements and commitments authorised during previous years and having continuing effect during the year

Pursuant to Article R.225-57 of the French Commercial Code, we have been advised of the following agreements and commitments that received the prior authorisation of the General Meeting during previous years and having continuing effect during the year.

With the Czech company Faiveley Transport Lekov a.s.

Amendment to the shareholder agreement extending the validity of the shareholder agreement signed on 30 October 2002

This amendment signed on 15 December 2009 extended until 31 January 2015 the effects of the shareholder agreement and reviewed the conditions concerning the mutual rights to purchase and sell shares held by the minority shareholder.

With Robert Joyeux

Memorandum of understanding with the managers and amendment n°1 – Sale and transfer of Faiveley Management shares to Faiveley S.A (which became Faiveley Transport on 22 September 2009)

As part of its capital restructuring operations, Faiveley Transport signed a memorandum of understanding (MOU) on 16 October 2008 and an amendment to this MOU on 17 November 2008 with the managers and their spouses who are shareholders of Faiveley Management SAS.

Within the framework of the memorandum of understanding of 16 October 2008, Robert Joyeux received 140,610 Faiveley Transport shares in exchange for 164,430 Faiveley Management shares provided to Faiveley Transport.

Robert Joyeux is committed to retaining all his Faiveley Transport shares for two years with effect from 23 December 2008 and two thirds of his shares for three years with effect from 23 December 2008.

Furthermore, for a period of six years with effect from 23 December 2008, any disposal of any block of over 10,000 shares in Faiveley Transport is subject to a pre-emption right of Faiveley Transport.

With Francois Faiveley Participations SAS

In application of the technical, commercial and administrative assistance agreement concluded between FFP and Faiveley Transport on 26 June 2004, and in respect of the re-invoicing of rents and services provided, Faiveley Transport recorded the following amounts as income and expense during the year.

In €uro	Faiveley Transport expenses	Faiveley Transport income
Assistance agreement and provision of services	365,010	1,020
Re-invoicing of rents and charges	–	2,150

Neuilly-sur-Seine and Dijon, 20 July 2011

The Statutory Auditors

Deloitte Marque & Gendrot Bénédicte Sabadie-Faure	Expertise Comptable et Audit Jérôme Burrier

DRAFT RESOLUTIONS TO BE SUBMITTED TO THE COMBINED GENERAL MEETING

OF 14 SEPTEMBER 2011 TO CONSIDER THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2011

RESOLUTIONS IN THE ORDINARY SESSION

FIRST RESOLUTION

Approval of the parent company financial statements for the year ending 31 March 2011

The General Meeting, with the required quorum and majority for Ordinary General Meetings, having considered the management report of the Management Board and the observations of the Supervisory Board on the operations of the Company for the financial year ending 31 March 2011 and on the financial statements of that year, and having considered the Statutory Auditors' report on the execution of their remit for this financial year, approves the company financial statements for the year ending 31 March 2011, as presented, showing a loss of €1,757,423.54, and the transactions recorded in these financial statements and summarised in these reports.

Consequently, the General Meeting discharges the Management Board for the execution of their duties for this financial year.

SECOND RESOLUTION

Allocation of profit for the year ending 31 March 2011

The General Meeting, with the required quorum and majority for Ordinary General Meetings, on the proposal of the Management Board, agrees to allocate the profit for the year ending 31 March 2011 as follows:

Loss for the financial year	(€1,757,423.54)
Retained earnings from prior years	€86,292,398.91
Distributable profit	€84,534,975.37
– Transfer to legal reserve:	€0
– Cash dividend of €1.20 per share:	(€17,285,653.20)

The balance of €67,249,322.17 will be transferred in full to retained earnings.

Taking account of these allocations, the Company shareholders' equity will be €177,139,971.16.

The dividend will be payable with effect from 19 September 2011.

Pursuant to Article 158 of the General Tax Code, as modified by the 2006 Finance Act, the dividend distributed will give an entitlement, to individual shareholders only, to a rebate of 40% on the amount received.

According to the provisions of Article 243(ii) of the General Tax Code, the General Meeting notes the amount of dividends distributed in the last three financial years:

Year	Dividend
2007/2008	€0.35
2008/2009	€1.00
2009/2010	€1.20

If at the time of the payment, the Company holds treasury shares, the distributable profit corresponding to the unpaid dividend due to the holding of the shares shall be allocated to the account "retained earnings".

THIRD RESOLUTION

Approval of the Consolidated Financial Statements for the year ending 31 March 2011

The Annual General Meeting, with the required quorum and majority for Ordinary General Meetings, having considered the management report of the Management Board and the observations of the Supervisory Board on the operations of the Group for the financial year ending on 31 March 2011 and on the consolidated financial statements of that year, and having considered the report on the consolidated financial statements from the Statutory Auditors in the execution of their assignment for this financial year, approves the Consolidated Financial Statements of the year ending 31 March 2011, as presented, and the transactions recorded in these financial statements and summarised in these reports.

FOURTH RESOLUTION

Directors' fees

The General Meeting, with the required quorum and majority for Ordinary General Meetings sets the amount for fees allocated to the Supervisory Board for the financial year ending 31 March 2011 at €222,000.

FIFTH RESOLUTION

Approval of the transactions and agreements under Articles L.225-86 and subsequent of the Commercial Code

The General Meeting, with the required quorum and majority for Ordinary General Meetings, having considered the Statutory Auditors' special report on the agreements covered by Articles L.225-86 and subsequent of the Commercial Code, notes and approves the terms of this report and the agreements mentioned therein.

SIXTH RESOLUTION

Renewal of the term of office of the Statutory Auditors

The General Meeting, with the required quorum and majority for Ordinary General Meetings, having considered the Statutory Auditors' report, appoints the term of office of Company EXPERTISE COMPTABLE ET AUDIT represented by Jérôme Burrier and Company PRICEWATERHOUSECOOPERS AUDIT represented by Philippe Vincent as Statutory Auditors as well as respectively Eric Gaboriaud and Yves Nicolas as Alternate Auditors, for a period of six years expiring at the end of the Ordinary General Meeting called to approve the financial statements for the year ending 31 March 2017.

SEVENTH RESOLUTION

Authorisation given to the Management Board to trade in the shares of the Company

The General Meeting, with the required quorum and majority for Ordinary General Meetings, having considered the report of the Management Board, authorises the Management Board, with the facility to subdelegate to its Chairman and/or one of its members, with the approval of the Chairman and within the law, pursuant to Articles L.225-209 and subsequent of the Commercial Code, to purchase or sell shares in the Company.

The General Meeting decides that the transactions may be made to:

- ensure the liquidity and to support the market for the Faiveley Transport share by an investment services provider via a liquidity contract that conforms to the ethics charter recognised by the Autorité des Marchés Financiers;
- grant them to employees and management of the Group according to the terms and conditions of the law (options to purchase shares, employee profit-sharing, allocation of free shares);
- cancel them by way of reduction in capital within the limits set by law;
- retain them within the limit of 5% of the capital and use them in exchange or payment, in particular as part of acquisitions initiated by the Company, by way of public offer or other;
- implement any other market practice that is permitted by the Autorité des Marchés Financiers and more generally all transactions that conform to the regulations in force.

The purchase of Company shares may be made up to a number of shares such that the total number of shares held by the Company following these purchases does not exceed 10% of the shares comprising the share capital of the company, knowing that the percentage will apply to capital adjusted as a function of the transactions that may occur subsequent to the current Meeting.

The purchases, disposals, exchange or transfer may be made by any means, on the market or principal to principal, including by acquisition or disposal of blocks, or by recourse to derivative financial instruments, under the conditions provided by market authorities and regulations. The maximum share capital acquired, disposed of, exchanged or transferred by of a block of securities may relate to the entire buyback programme.

The maximum purchase price is set at €90 per share.

The General Meeting delegates to the Management Board the power to adjust the above purchase price in order to take account of the incidence of possible financial transactions on the value of the share. In particular, in the event of an increase in capital by incorporation of reserves and the issue of free shares, the price indicated above will be adjusted by a coefficient of a multiplier equal to the ratio of the number of securities comprising the share capital before the transaction and the number after the transaction.

The total amount allocated to the repurchase programme is €129.6 million.

This authorisation remains valid for eighteen months with effect from this day.

The General Meeting confers all powers to the Management Board, with the power to delegate to decide and implement the buyback programme, and in particular to issue stock exchange instructions, conclude all agreements, carry out all formalities and make declarations to the Autorité des Marchés Financiers and any other organisation, and in general, do everything necessary to complete the transactions carried out under the present authorisation.

This resolution replaces and cancels the authorisation granted by the seventh resolution voted by the Combined General Meeting of 13 September 2010.

RESOLUTION IN EXTRAORDINARY SESSION

EIGHTH RESOLUTION

Amendment to Article 19 of the bylaws

The General Meeting, with the required quorum and majority for Extraordinary General Meetings, having considered the report of the Management Board, decides to establish conditions for staggered terms of office of members of the Supervisory Board and to thereby modify Article 19 of the bylaws of the Company and in particular to cancel the paragraph II of the said Article with the title "Renewal". Article 19 of the Company's bylaws currently reads as follows:

"The Supervisory Board comprises at least five members and ten members at most. In accordance with the law, this number, which corresponds to a minimum of three members, may not exceed eighteen members subject to the exemption provided by law in the event of a merger.

I. Appointment

The members of the Supervisory Board, individual or corporate persons, are elected by the Ordinary General Meeting of shareholders from among its members, by a simple majority, for a period of three years. By exception, and to allow the implementation and maintenance of the staggering of the terms of members of the Supervisory Board, the Ordinary General Meeting may appoint one or more directors for a term of one (1) year or two (2) years. Members of the Supervisory Board are eligible for re-appointment. They will take the title of "director".

....

II. – Resignation – Vacancy

...

III. – Dismissal

...

IV. – Member of the Supervisory Board representing employee shareholders

..."

RESOLUTIONS IN ORDINARY SESSION

NINTH RESOLUTION

Renewal of the term of office of a member of the Supervisory Board

The General Meeting, with the required quorum and majority for Ordinary General Meetings, decides to renew the term of office of Philippe Alfroid as member of the Supervisory Board for a period of one year, which will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2012.

TENTH RESOLUTION

Renewal of the term of office of a member of the Supervisory Board

The General Meeting, with the required quorum and majority for Ordinary General Meetings, decides to renew the term of office of François Faiveley as member of the Supervisory Board for a period of one year, which will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2012.

ELEVENTH RESOLUTION

Renewal of the term of office of a member of the Supervisory Board

The General Meeting, with the required quorum and majority for Ordinary General Meetings, decides to renew the term of office of Didier Alix as member of the Supervisory Board for a period of one year, which will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2012.

TWELFTH RESOLUTION

Renewal of the term of office of a member of the Supervisory Board

The General Meeting, with the required quorum and majority for Ordinary General Meetings, decides to renew the term of office of Maurice Marchand-Tonel as member of the Supervisory Board for a period of two years, which will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2013.

THIRTEENTH RESOLUTION

Renewal of the term of office of a member of the Supervisory Board

The General Meeting, with the required quorum and majority for Ordinary General Meetings, decides to renew the term of office of Christian Germa as member of the Supervisory Board for a period of two years, which will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2013.

FOURTEENTH RESOLUTION

Renewal of the term of office of a member of the Supervisory Board

The General Meeting, with the required quorum and majority for Ordinary General Meetings, decides to renew the term of office of Christopher Spencer as member of the Supervisory Board for a period of three years, which will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2014.

FIFTEENTH RESOLUTION

Appointment of a new member of the Supervisory Board

The General Meeting, with the required quorum and majority for Ordinary General Meetings, decides to appoint Mrs. Hélène Auriol-Potier, as a new member of the Supervisory Board of the Company, for a period of three years. This term of office will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2014.

SIXTEENTH RESOLUTION

Appointment of a new member of the Supervisory Board

The General Meeting, with the required quorum and majority for Ordinary General Meetings, decides to appoint Nicoletta Giadrossi-Morel, as a new member of the Supervisory Board of the Company, for a period of three years. This term of office will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2014.

SEVENTEENTH RESOLUTION

Appointment of a new member of the Supervisory Board

The General Meeting, with the required quorum and majority for Annual General Meetings, decides to appoint Robert Joyeux, as a new member of the Supervisory Board of the Company, for a period of two years. This term of office will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2013.

RESOLUTIONS IN EXTRAORDINARY SESSION

EIGHTEENTH RESOLUTION

Ratification of the transfer of head office and relevant amendment to the bylaws

The General Meeting, with the required quorum and majority for Extraordinary General Meetings, ratifies the transfer of the Company's registered office in accordance with Article 225-65 of the Commercial Code to the following adress:

Immeuble Delage, Hall Parc-Bâtiment 6A,
3, rue du 19 mars 1962 – 92230 Gennevilliers

with effect from 15 July 2011,

decided by the Supervisory Board at its meeting on 9 June 2011 and makes the corresponding amendment to Article 4 of the bylaws, which currently reads as follows:

"The registered office is Immeuble Delage, Hall Parc-Bâtiment 6A, 3 rue du 19 mars, 1962, 92230 Gennevilliers.

It can be transferred within the same district or in a neighbouring district as decided by the Supervisory Board, subject to ratification of this decision by the subsequent Ordinary General Meeting, and in any places as decided by the Extraordinary General Meeting of shareholders.

The Management Board can create, transfer and close, in France and abroad, any establishments, agencies, branches, offices or warehouses."

NINETEENTH RESOLUTION

Delegation to grant authority to the Management Board to increase share capital without pre-emption right to subscribe through a private placement to qualified investors for the benefit or a restricted circle of investors

The General Meeting, with the required quorum and majority for Extraordinary General Meetings, having considered the report of the Management Board and the special report of the Statutory Auditors, and pursuant of the conditions of the Commercial Code, and in particular Articles L.225-129, L.225-129-2, L.225-135, L.225-136,

– delegates to the Management Board, with the power to subdelegate, subject to the conditions set by law and by the bylaws, the authority to decide on one or more increases in the share capital of the Company, in the proportions and at the times it decides, by the issue, of one or more offers covered by II of Article L. 411-2 of the Monetary and Financial Code, ordinary shares, as well as all marketable securities, issued for payment or for free, giving access by all means, immediately and/or in time, to new or existing ordinary shares in the Company, the subscription to these shares and marketable securities may be in cash, or by offset against liquid and current liabilities, or by incorporation of reserves, profits or premiums;
– decides that the total increases of share capital likely to be carried out immediately or in time by virtue of the present authorisation is set at 1% of the share capital at the date of this meeting with the stipulation that in any event, the issue of securities executed in this context are within the limits specified by the law: if applicable, the nominal amount of any shares potentially issued in addition to this limit, in the case of new financial transactions to protect the rights of holders of securities giving access to capital, shall be added to the said limit;
– decides that the present authorisation is given for a period of 26 months from the date of the current Meeting;
– decides to cancel the pre-emption right of shareholders to subscribe to securities issued by virtue of the present resolution;
– notes that, where appropriate, the present authorisation implies, for the benefit of holders of marketable securities issued giving access to the capital of the Company, waiver by shareholders of their pre-emption right to subscribe to shares to which these marketable securities give the right, immediately or in time;
– decides that the issue price of shares shall be at least equal to the minimum allowed by legal and regulatory provisions applicable on the date of issue (to date, the weighted average of the last three trading days preceding the date of the setting of the subscription price for the capital increase, minus a maximum discount of 5% thereafter, if applicable, correction of the average in case of a difference between the dates of transfer of ownership);
– gives all powers to the Management Board, with facility to subdelegate in accordance with the law and bylaws, to implement the present authorisation and in particular to set the conditions of issue, the nature and features of marketable securities giving access to capital, the methods of granting of capital securities to which these marketable securities give the right as well as the dates on which the rights of grant may be exercised, at its sole initiative allocate the costs of increase in capital to the related premiums and transfer from this amount the sums necessary to increase the legal reserve, proceed with all adjustments to take account of the effect of transactions on the capital of the Company, complete all agreements, in particular to ensure the successful completion of issues envisaged, note the realisation of the increases in capital, make the related changes to the bylaws, carry out the formalities required and in general do everything necessary;
– notes the fact that, in the event the Management Board uses the authorisation provided to it by the present resolution, the Management Board will request the prior approval of the Supervisory Board and report to the next Ordinary General Meeting, pursuant to the law and regulations, on the use made of the authorisations given by the present resolution;
– notes that the present authorisation replaces the authorisation adopted at the Combined General Meeting of 22 September 2009.

TWENTIETH RESOLUTION

Delegation to grant authority to the Management Board to increase share capital for the benefit of employees of the Group

The General Meeting, with the required quorum and majority for Extraordinary General Meetings, having considered the report of the Management Board and the special report of the Statutory Auditors and pursuant to Articles L.225-129-2, L.225-138, L.225-138-1 of the Commercial Code and L.3332-1 and subsequent of the Labour Code, and this in order to fulfil the provisions of Article L.225-129-6 of the Commercial Code,

- delegates to the Management Board, with the facility to subdelegate under the conditions foreseen by the law and by the bylaws, the authority to decide on one or more increases of the Company capital, in the proportion and at the times it deems appropriate by issuing shares or securities giving access to the capital of the Company reserved to employees enrolled in a company savings plan of the Company or a related company, up to a maximum nominal amount of 1% of the share capital on the day of the present General Meeting;
- decides that this authorisation is given for a period of 26 months from the date of the present meeting;
- decides to cancel the pre-emption right of shareholders to subscribe to securities issued by virtue of the present resolution;
- grants full powers to the Management Board, with the facility to subdelegate under the conditions set by the law and by the bylaws, to implement this delegation and in particular to set the price and terms of issue, the nature and characteristics of securities giving access to capital, the terms for the allocation of shares to which marketable securities are eligible as well as the dates in which allocation rights may be exercised, at its sole discretion charge the costs of capital increases against the amount of related premiums and to deduct from this amount the sums necessary to fund the legal reserve, to carry out any adjustments to take account of the impact of transactions on the capital of the company, including all agreements to achieve the successful completion of proposed issues, to record any capital increases, to amend the bylaws accordingly, to perform the required formalities and generally do whatever is necessary.

TWENTY-FIRST RESOLUTION

Authorisation to the Management Board to proceed with the allocation of free performance-based shares, either existing or to be issued

The General Meeting, with the required quorum and majority for Extraordinary General Meetings, having considered the report of the Management Board and the special report of the Statutory Auditors, authorises the Management Board, pursuant to Articles L.225-197-1 and subsequent of the Commercial Code to proceed on one or more occasions, with the allocation of free ordinary shares in the Company, existing or to be issued, for the benefit of executive management as defined by law and to certain members of the personnel of the Company and companies related to it.

The General Meeting sets the period of acquisition at the end of which the allocation of ordinary shares by the beneficiaries becomes final, subject to possible conditions determined by the Management Board, to a minimum period of 2 years and sets the period of compulsory retention of the shares by the beneficiaries, at a minimum of 2 years with effect from the final allocation date of the shares.

However, the General Meeting authorises the Management Board not to impose any retention period for the shares concerned, to the extent that the vesting period of one or several allocations is a minimum of four years.

The General Meeting decides that the total number of free shares allocated pursuant to this resolution may not exceed 1% of the share capital at the date of the current General Meeting.

The General Meeting notes that free shares allocated may be existing shares, or shares to be issued and authorises the Management Board, in the event of an allocation of free shares to be issued, to increase the capital, at the end of the acquisition period, by the incorporation of reserves, profits or issue premiums for the benefit of the beneficiaries of the said shares, this decision carries the full waiver by shareholders of their pre-emption right to subscribe for the benefit of beneficiaries of free shares from the reserves, profit or premiums thus incorporated, it being noted that the increase in capital will be carried out by the sole fact of the final allocation of shares to the beneficiaries.

The General Meeting grants all powers to the Management Board that will be supported by the Remuneration Committee, within the limits set above to:

- set the conditions and where appropriate, the allocation criteria for ordinary shares;
- within the legal conditions and limits, set the dates on which the allocations will proceed;
- determine the identity of beneficiaries, the number of ordinary shares allocated to each of them and the means of allocation of ordinary shares.

The General Meeting sets the validity of this authorisation at 38 months, from this date. This authorisation cancels any amounts unused by the Management Board by virtue of the previous authorisation granted by the General Meeting of 13 September 2010.

The Management Board will inform the Ordinary General Meeting every year of transactions carried out by virtue of the present authorisation, in a special report, pursuant to Article L.225-197-4 of the Commercial Code.

RESOLUTIONS RELATIVE TO BOTH MEETINGS

TWENTY-SECOND RESOLUTION

Powers for formalities

The Annual General Meeting confers full powers to the bearer of copies or extracts of the minutes recording its decisions, to carry out all the legal formalities of publication.

CORPORATE GOVERNANCE

CHAIRMAN OF THE SUPERVISORY BOARD'S REPORT

ON THE OPERATION OF THE SUPERVISORY BOARD AND ON INTERNAL CONTROL WITHIN FAIVELEY TRANSPORT.

Dear Shareholders,

Pursuant to the provisions of Article L.225-68 of the Commercial Code, I hereby inform you by the present report:

– of the conditions for the preparation and organisation of the work of your Supervisory Board during the financial year ended 31 March 2011;
– the principles and rules agreed by the Board to determine the remuneration and benefits of all kind granted to senior executives;
– of the internal control procedures implemented by the Company;
– other information required by Article L.225-68 of the Commercial Code.

The current report was discussed and approved by the Supervisory Board at its meeting of 9 June 2011.

1. Preparation and organisation of the work of the Supervisory Board

1.1. COMPOSITION OF THE SUPERVISORY BOARD

Pursuant to the bylaws, the Supervisory Board comprises at least five members and ten members at most.

The Company adopted the form of a public limited company with a Management Board and a Supervisory Board at the time of the General Meeting held on 27 September 2005. The first members, formerly Directors of the Company constituted as a public limited company with a Board of Directors, were appointed for an initial period of three years and were reappointed at the Annual General Meeting held on 17 September 2008 for a period of 6 years, in accordance with the Company's bylaws.

The Combined General Meeting of 13 September 2010 amended Article 19 of the Company's bylaws. Now board members are appointed for three years and they can be reappointed. This decision is effective immediately and applies to current terms.

Any shareholder, individual or corporate, may be elected as a member, subject to their holding at least one share in the Company (Article 19 of the bylaws).

The Supervisory Board elects, from among its own members, a Chairman and a Vice-Chairman, who are individual shareholders, otherwise their appointment is null and void. The Chairman and Vice Chairman are charged with calling board meetings and leading discussions.

Where a legal entity assumes the function of a member of the Supervisory Board, it is required to designate a permanent representative who is subject to the same conditions and requirements and who has the same civil and personal liability as if they were a member of the Board in their own name.

Members of the Management Board, as well as current or former statutory auditors and their parents or relatives under the laws, may not be members of the Supervisory Board.

The education and professional experience of board members are quite varied, given that they have all held high-level management positions.

With regard to the six independence criteria defined by the Supervisory Board, in line with those recognised by Euronext at 31 March 2011, three of the current eight members may be considered independent: Christian Germa, Philippe Alfroid and Maurice Marchand-Tonel.

At 31 March 2011, the Supervisory Board comprised eight members, all French nationals, given that Christopher Spencer has dual French and British nationality. The average age of the members at 31 March 2011 was 58.

The members appointed by the General Meeting are as follows:

- **Philippe Alfroid (born 29 August 1945)**

Philippe Alfroid was appointed a Supervisory Board member at the General Meeting of 27 September 2005 and was reappointed at the General Meeting of 17 September 2008.

He was appointed Chairman of the Supervisory Board on 22 September 2009.

Philippe Alfroid is an engineer from ENSEHRMA-Grenoble and holds a Master of Science from Massachusetts Institute of Technology (MIT). Philippe Alfroid worked as a consultant for the company PSDI. He then joined Essilor in 1972, where he was Chief Executive Officer from 1996 to 2009.

- **François Faiveley (born 26 April 1951)**

François Faiveley was appointed as a Supervisory Board member at the Combined General Meeting of 27 September 2005 and was reappointed at the Ordinary General Meeting of 17 September 2008.

He was appointed Vice Chairman of the Supervisory Board on 22 September 2009.

François Faiveley is a graduate from ESCAE (Business School) in Dijon. He has served in operational and management positions within the Faiveley Transport Group since the start of the 1990s.

- **Christian Germa (born 11 February 1970)**

Christian Germa was appointed as a member of the Supervisory Board at the Combined General Meeting of 27 September 2005 and was reappointed at the Ordinary General Meeting of 17 September 2008.

Christian Germa is a graduate of the Ecole Polytechnique and he is a member of the "Corps des Ingénieurs des Ponts et Chaussées" (the body of civil engineers in France). He started his career in Treasury Management at the Ministry of Finance, where he carried out the duties of Deputy Secretary General to the Comité Interministériel de Restructuration Industrielle (Inter-Ministerial Committee for Industrial Restructuring). He joined the Vinci Group in 2002, where today he is responsible for public-private partnerships.

- **Edmond Ballerin (born 6 January 1943)**

Edmond Ballerin was appointed as a member of the Supervisory Board at the Combined General Meeting of 27 September 2005 and was reappointed at the Ordinary General Meeting on 17 September 2008.

Edmond Ballerin is a graduate of the Ecole des Cadres. He started his career with DIM as assistant to the Advertising Manager before joining the Bristol Myers Group and then Ciba-Geigy. He joined Faiveley in 1971, where he successively held the positions of Marketing Manager, Product Manager, then Head of Communications.

- **Maurice Marchand-Tonel (born 14 February 1944)**

Maurice Marchand-Tonel was appointed as a member of the Supervisory Board, at the General Meeting held on 22 September 2009, following the resignation of Mr Stéphane Volant.

Maurice Marchand-Tonel is an independent consultant. On leaving Harvard Business School he started his career with the Boston Consulting Group with whom he co-founded their French and German offices. Afterwards, he was appointed Chairman of Compagnie Olivier, and subsequently Chief Executive Officer of Sommer and Chairman of Givenchy. He then managed Ciments Français International, before becoming Chairman of Transalliance until 1999. In 2000, he became a partner with Arthur Andersen, which has since become BearingPoint, where he has been Senior Advisor since 2004. Maurice Marchand-Tonel is Chairman of the European American Chamber of Commerce.

- **Didier Alix (born 16 August 1946)**

Didier Alix was co-opted as a member of the Supervisory Board at its meeting held on 27 November 2009 following the resignation of Christian Baffy. His appointment as a member of the Supervisory Board was ratified at the General Meeting of 13 September 2010.

Didier Alix joined Société Générale in 1971, where he held a number of positions, notably within the Inspection Générale then as Head of Central Risk Control. He was also Head of Branch Offices before being promoted to Chief Executive Officer of Franfinance, then Head of Réseau France. In 1998, he became Deputy Chief Executive Officer for Individuals and Businesses. In 2006, he became Deputy Chief Executive Officer of Société Générale. He currently is Advisor to the Chairman and Chief Executive Officer.

- **Christopher Spencer (born 4 November 1962)**

Christopher Spencer was appointed as a member of the Supervisory Board at the Combined General Meeting of 22 September 2009, following the resignation of Denis Grand-Perret. He was previously a Director of the Board of Faiveley Transport (November 2004 – February 2009).

Christopher Spencer holds both a French and German degree in higher management studies (ESC Reims and Fachhochschule Reutlingen) and is a Chartered Accountant. He has over twenty years experience in private equity in Europe, the last six with the Sagard funds, which he helped establish in the French market. Since the beginning of 2010, M. Spencer has focused on his private investment and Business Angel activities.

- **Serge Choumaker (born 18 September 1959)**

Serge Choumaker was appointed as a member of the Supervisory Board representing employee shareholders at the Combined General Meeting of 13 September 2010.

He is Head of Accounting & Consolidation within the Faiveley Transport Group. Serge Choumaker holds a D.E.C.S. He joined the Faiveley Transport Group in September 2001. Previously, Serge Choumaker held management positions as Head of Accounting at the companies Lafarge and Ferembal.

Xavier de Lavallade, Legal Counsel of the Group, shall serve as Secretary of the Board.

Members of the Supervisory Board can be contacted at 143 Boulevard Anatole France, 93200 Saint-Denis.

1.2. FUNCTIONING OF THE BOARD

The Supervisory Board continuously ensures, by all appropriate means, management control of the Management Board. The Supervisory Board is regularly kept up-to-date by the Management Board through quarterly reports on the businesses and operations of the Company and its subsidiaries.

As part of its legal duties, the Supervisory Board exercises continuous control over the management of the Company by the Management Board. At all times of the year, it carries out verifications and controls that it considers appropriate and may request documents it considers useful to the carrying out of its work. The Management Board presents an operating report to the Supervisory Board at last once a quarter.

The Supervisory Board appoints the members of the Management Board and sets their remuneration. It can also dismiss them in accordance with the bylaws. It appoints the Chairman of the Management Board and can also appoint the Chief Executive(s).

The Supervisory Board checks and monitors the parent company and consolidated financial statements for the half year and full year prepared by the Management Board.

At the Ordinary General Meeting, it presents a report containing its observations on the Management Board's report as well as on the financial statements for the year.

The Supervisory Board approves the medium and long-term strategy presented by the Chairman of the Management Board and monitors its execution. It oversees the quality of information provided to shareholders as well as the markets, via financial statements or at the time of major transactions.

In addition to the provisions of the bylaws, the Supervisory Board must approve beforehand all significant transactions in respect of the scope of the Company's business (acquisitions, disposals, internal restructuring) or outside the approved strategy of the business. It is regularly informed of the financial position, the cash position and the commitments of the Company.

The Chairman calls the Supervisory Board as often as required in the interests of the Company and at least once a quarter in the fifteen days following the release of the periodic report by the Management Board.

The Supervisory Board's deliberations are not valid unless at least half its members are present and decisions are made by a majority of members present. In the event of a tie, the Chairman has the deciding vote.

At any one meeting, no Director may hold more than one power of attorney received from a Director who could not be present.

In order to conform to AFEP-MEDEF's corporate governance code for listed companies of December 2008, the Supervisory Board added to the agenda of its meeting on 22 April 2010 a revision to its internal regulations providing and specifying:

- its powers;
- its operational rules;
- the terms and conditions of meetings, the organisation and preparation of the work of the Board;
- the information required by members of the Supervisory Board in the exercise of their duties.

Following the recommendation of the AMF (the French Financial Market Authority) of 3 November 2010 on the prevention of insider trading violations by management, the Supervisory Board at its meeting on 24 February 2011 decided to precisely define the trading restriction periods during which management and permanent insiders are prohibited from doing a transaction in the Company's securities. The Supervisory Board also amended its internal regulations and brought the Company's Code of Conduct into compliance at the same meeting. The Supervisory Board's internal regulations are available on the Company's website.

Moreover, at the meeting held on 24 March 2011, the Supervisory Board reviewed the provisions of the law of 27 January 2011 concerning the fair representation of women and men on boards of directors and supervisory boards and decided to comply with the requirements of this regulation. Consequently, the Supervisory Board has entrusted the Remuneration Committee with the task of putting forward female candidates, stating that the candidates should have the possibility of being classified as independent under the regulation adopted by the Supervisory Board on the matter. These applications will be reviewed by the Supervisory Board in a meeting scheduled for 22 July 2011. The name of a female representative will therefore be proposed at the General Meeting of 14 September 2011 to serve on the Supervisory Board of the Company.

In light of their legal assignments, each member of the Supervisory Board is bound by the basic obligations of loyalty, confidentiality and due diligence.

The Board adopted a Charter for members of the Supervisory Board that defines the criteria adopted to qualify as an Independent Director, as well as the obligations of members of the Supervisory Board. This Charter is also available at the registered office of the Company.

It is specifically stated that at least two of the members of the Supervisory Board must meet the qualification of Independent Director.

Aside from the requirements for expertise and experience required, a member of the Supervisory Board is deemed independent where he/she has no direct or indirect relationship, of whatever nature, with the Company, its group or its management that may compromise the exercise of freedom of judgment and their completely objective participation in the work of the Supervisory Board.

To be considered an Independent Director, a member of the Supervisory Board must satisfy the following criteria:

- they must not be or have been an employee or executive of the Company or an employee or director of a company that has been consolidated during the past five years;
- not be a senior executive of a company where the Company, directly or indirectly, holds a position as Director or has an employee appointed as such, or where a senior executive of the Company (currently or in the last five years) holds the position of Director;
- must not be a customer, supplier, commercial partner, merchant banker, or financing banker:
  - that is of significance to the Company or its group,
  - or where the Company or its group represent a significant part of the activities;
- must not be directly or indirectly related, nor have been directly or indirectly related during the last five years, to such a customer, supplier, commercial partner, merchant banker or investment banker;
- must not have any close family relationship with a senior executive of the Company;
- must not have been an auditor to the business during the previous five years;
- must not have been a member of the Supervisory Board for more than twelve years;
- must not hold, directly or indirectly, a shareholding equal to or greater than 10% in the share capital or voting rights of the Company or in any one of the companies of its Group, nor be related in any way whatsoever to a shareholder holding more than 10% of the capital or the voting rights of the Company or a company of its Group.

Every year, at the meeting to consider the financial statements of the year just ended, the Supervisory Board examines the position of each of its members on a case by case basis with regard to the criteria of this clause, and brings the conclusions of its examination to the attention of the shareholders in its annual report so that the Independent Directors are identified.

Finally, beyond the sole statutory requirements, internal regulations require that each member of the Supervisory Board be a shareholder in a personal capacity. It was decided that each member of the Supervisory Board should acquire at least two hundred (200) shares of the Company. During this financial year, board members regularised their status to conform to this new provision of the internal regulations.

1.3. FREQUENCY OF MEETINGS

During the last financial year, the Supervisory Board met seven times.

The agendas of the Board meetings were as follows:

- **On 22 April 2010**, with the following agenda:
  - Approval of the minutes of the previous meeting;
  - Update on the Group's business and the last financial year;
  - Adoption of the new internal regulations of the Supervisory Board;
  - Date of the next Annual General Meeting to approve the financial statements and associated work schedule;
  - Update on the Wabtec dispute;
  - Miscellaneous.
- **On 11 June 2010**, with the following agenda:
  - Approval of the minutes of the previous meeting;
  - Presentation by the Management Board and observations of the Board on the parent company and consolidated financial statements for the year ending 31 March 2010;
  - Presentation of the Audit and Risk Committee's report;
  - Presentation and approval of the Supervisory Board's report on the management report prepared by the Management Board for the Annual General Meeting;
  - Presentation and approval of the Chairman's report on internal audit procedures and preparation and organisation of the Board's work for the Annual General Meeting;
  - Review of draft resolutions submitted by the Management Board at the Annual General Meeting;
  - Review of the list of regulated agreements over the previous year under Article L.225-86 of the Commercial Code;
  - Review of the list of current agreements concluded under normal conditions over the previous year;
  - Presentation of the conclusions of the Remuneration Committee: remuneration of Board members and review of procedures for setting up a performance-based share distribution plan;
  - Governance:
    - Adoption of the Code of Conduct with regard to transactions in Company securities involving directors and senior non-executive directors;
    - Result of the Supervisory Board's vote concerning the representation of employee shareholders (Article L.225-71 of the Commercial Code);
    - Appointment of Board Secretary
  - Miscellaneous.
- **On 13 September 2010**, with the following agenda:
  - Approval of the minutes of the previous meeting;
  - Resignation of a member of the Management Board;
  - Miscellaneous.
- **On 22 October 2010**, with the following agenda:
  - Approval of the minutes of the previous meeting;
  - Review of sales for the first half of 2010-2011;
  - Review and approval of the remuneration of Board members;
  - Review and approval of the distribution and performance criteria put forward by the Remuneration Committee for the implementation of the new stock option and free share issue plans approved by the Combined General Meeting of 13 September 2010;
  - Miscellaneous.
- **On 26 November 2010**, with the following agenda:
  - Approval of the minutes of the previous meeting;
  - Presentation and approval of the interim report finalised by the Management Board;
  - Implementation by the Management Board of a free performance-based share distribution plan: presentation of the settlement plan, retention obligation for Company executives that are beneficiaries and eligible to serve on the Management Board;
  - Miscellaneous.
- **On 24 February 2011**, with the following agenda:
  - Approval of the minutes of the previous meeting;
  - Request for the Management Board's preliminary authorisation regarding the issuance of a bond on behalf of the Company SFRT, governed by Chinese law;
  - Annual authorisation of guarantees, sureties and securities granted to the Management Board;
  - Governance: presentation of the Financial Market Authority's recommendation on the prevention of insider breaches attributable to directors of listed companies, compliance with the Code of Conduct and Supervisory Board internal regulations;
  - Miscellaneous.
- **On 24 March 2011**, with the following agenda:
  - Approval of the minutes of the previous meeting;
  - Formation and Chairmanship of the Management Board;
  - Review of the Law of 27 January 2011 concerning the fair representation of women and men on the Management and Supervisory Boards;
  - Date and venue of the next Annual General Meeting;
  - Miscellaneous.

1.4. CONVENING MEETINGS OF THE SUPERVISORY BOARD MEMBERS

In accordance with Article 20-III of the bylaws, the advance notice required for formal meetings of the members of the Supervisory Board is four days.

Each member has the option of being represented by another member at the board meetings.

The meetings are chaired by the Chairman of the Supervisory Board, or in his absence, by the Vice-Chairman.

1.5. INFORMATION FOR SUPERVISORY BOARD MEMBERS

Before a meeting, each member receives Group financial information and a file detailing the items included on the agenda for the meeting.

1.6. DIRECTORS' FEES

Details are provided in the Management Report of the Management Board.

1.7. LOCATION OF THE MEETINGS

In general, meetings of the Supervisory Board take place at the registered office, however, occasionally, certain meetings are held in other locations.

1.8. MINUTES OF THE MEETINGS

Minutes of Supervisory Board meetings are drafted at the end of each meeting and are immediately forwarded to board members upon request.

1.9. SUMMARY OF 2010/2011 ACTIVITY

During the year ended 31 March 2011, the Board met seven times. The attendance rate was 85.7%. All seven meetings were chaired by the Chairman of the Supervisory Board, Philippe Alfroid.

During the financial year, all Management Board members attended meetings and presented items on the agenda within their respective areas of expertise to the Supervisory Board.

The Group Legal Counsel attended all Board meetings and performed a secretarial role at the meetings.

Pursuant to Article L.225-238 of the Commercial Code, the Statutory Auditors were invited to the Board meetings at which the interim and year-end financial statements were presented and approved.

1.10. RULES GOVERNING DIRECTORS' REMUNERATION AND OTHER BENEFITS

Executive compensation, detailed in the Management Board's report, is determined by the Remuneration Committee and the Supervisory Board. All the information required under Article L.225-102-1 of the Commercial Code is presented in the Management Board's report.

The setting and granting of Directors' fees is decided at a meeting between the Chairman and the Vice-Chairman of the Supervisory Board, which specifically take account of the following criteria:
- Board meeting attendance;
- work carried out as part of the various committees;
- time given;
- personal expertise and contributions to the Board's deliberations.

The functioning of the Supervisory Board is then assessed by the Chairman and the Vice-Chairman. The frequency of meetings, the members' contribution to work carried out, work methods, governance rules and the composition of the Board are reviewed carefully in order to propose the improvements deemed necessary. At the end of last year, the Chairman called on external consultants to point out and draw from governance practices implemented by companies of a similar size to the Faiveley Transport Group. Results are expected in September 2011.

Directors' fees totalling €175,000 were allocated in respect of the financial year ending 31 March 2010.

In its decision dated 28 November 2008, the Supervisory Board adopted the principles of the AFEP-MEDEF corporate governance code. This Code includes:

- the October 2003 corporate governance code for listed companies, updated in April 2010;
- the October 2008 recommendations on Directors' remuneration.

The Supervisory Board has reservations concerning the rule against holding a term of office and an employment contract concurrently: it favours suspending employment contracts of senior executives at the time of their appointments as Chairman and Chief Executive Officer or as Chief Executive Officer, where their seniority in the business is at least ten years at the time of their appointment.

Management Board members do not benefit from specific remuneration attached to their terms of office as Directors of the Company. In addition, Board members who are also directors of the Group's companies do not receive specific benefits as part of their terms.

The Management Board meeting of 29 December 2005 approved the terms of its internal regulations, by which all members are individually bound. The internal regulations specify the powers and duties of the Management Board and the procedures governing meetings and decision-making. The internal regulations are available at the registered office of the Company.

With regards to third parties and according to the bylaws, only the Chairman of the Management Board may represent the Company, unless decided otherwise by the Supervisory Board. Robert Joyeux, Chairman of the Management Board, is the sole Chief Executive Officer and has no specific limits on his powers.

Management Board members were reappointed for a three-year term during a deliberation of the Supervisory Board on 28 November 2008. Thierry Barel, Chief Executive Officer of the Company, was appointed member of the Management Board on 22 September 2009 for a three-year period. The Management Board is currently made up of three people.

The Remuneration Committee is in charge of defining the share purchase and subscription option policy, as well as the policy governing the allocation of free shares to Directors and Executive Officers, in close collaboration with the Group's Human resources Department. This policy is then implemented by the Management Board, which acts strictly within the bounds of the delegation granted to it by the shareholders' General Meeting.

2. Internal control procedures and risk management

The Company has developed internal control procedures and risk management to ensure rigorous financial management and the control of risks associated with its business activities. The procedures are also aimed at ensuring that reliable information is provided regarding the Company's financial situation and in the financial statements given to shareholders.

The benchmark for internal control adopted by the Company is that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In this document, internal control is a process aimed at ensuring the following objectives are met: the realisation and optimisation of transactions, reliability of financial information and compliance with the law and regulations in force. As with all systems of internal control, it cannot provide an absolute guarantee that all risks will be eliminated. As a result, the Group's system of internal control respects the operational framework recognised by COSO: organisation and principles of control, risk assessment processes, the control activities themselves, documentation and communication of rules regarding control, supervision of the systems of internal control.

In the area of internal control, the Company uses the general principles defined by the AMF (French Financial Market Authority).

2.1. GROUP OBJECTIVES FOR INTERNAL CONTROL PROCEDURES AND RISK MANAGEMENT

The objectives of the internal control procedures implemented within the Faiveley Transport Group, which represents 100% of Group sales, are as follows:

- to establish accurate, reliable reporting of the Company's accounting and financial information;
- to ensure that the information forwarded to the Supervisory Board of Faiveley Transport and to General Meetings is reliable and is a true reflection of the Company's business;
- to ensure that the operations carried out within the Company comply with current legislation and regulations in force and with the objectives laid down by General Management;
- to ensure adequate internal distribution of relevant and reliable information, enabling each participant to fulfil his/her responsibilities;
- to establish an organisation with clearly defined responsibilities, adequate resources and expertise, one which relies on appropriate IT systems, operating procedures and methods, and appropriate tools and practices;
- to compile and analyse major identifiable risks in light of the Company's objectives and to ensure that procedures are implemented to manage these risks;
- to ensure that published financial statements and other information disclosed to the market is reliable.

One of the main objectives of the internal control system is to anticipate and manage the risks inherent to the Company's business and the risk of mistakes or fraud, particularly in the area of accounting and finance.

Internal control is an integral part of the Group's corporate governance strategy. In addition to the specialised committees described below, the executives of Faiveley Transport have formed a Steering Committee that meets every month in order to monitor the operational and financial performance of the railway business in a very detailed and consistent manner.

2.2. INTERNAL CONTROL PROCEDURES AND RISK MANAGEMENT

The objective of internal control is to ensure the prevention and management of risks arising from the operations of Group entities and the risk of errors or fraud, particularly of a financial and accounting nature. It seeks to ensure compliance with the law and applicable regulations, as well as the reliability of financial and accounting information.

The Group has set up an organisation, procedures and processes with the purpose of identifying, evaluating and reducing risks. The goal is also to allocate the resources necessary to manage risks, in line with the strategic and operational objectives of the Group.

However, as with all systems of internal control, it can offer reasonable assurance but cannot provide an absolute guarantee that these risks will be fully eliminated.

The internal control and risk management mechanisms in place within the Group are thus aimed at promoting:

- internal control in terms of the control environment: the Group's control environment is based on:
  - reference documents comprising, among others, a body of rules summarised in a 'Corporate Manual' including the best practice rules for management, submission of tenders, quality procedures, human resource management, insurance and finance;
  - "Financial and Accounting Policies", a standardised benchmark document for the Group, covering accounting standards, accounting rules and practices, consolidation, reporting and cash management procedures;
- a clear internal organisation appropriate to the Group's business model;
- information systems adapted to the Group's business and organisation;
- identification of major Group risks (market, industrial and environmental risks);
- protection and monitoring activities: IT security, the implementation of corrective action plans by operational entities as part of their continuous improvement;
- internal communication: the Group distributes relevant and reliable information mainly via the Group Intranet site. An internal newsletter is issued regularly within the Group.

Moreover, in its control functions, the Supervisory Board now follows the principles set down by the new corporate governance code for listed companies, published by AFEP-MEDEF in December 2008 and updated in April 2010.

2.3. IMPLEMENTATION OF INTERNAL CONTROLS

In order to meet objectives and to structure internal control activities, the Group has two types of procedures:

- operational procedures;
- internal control procedures relating to the preparation and processing of financial and accounting information.

2.3.1. Content of operational procedures

The principal standardised operating procedures are as follows:

- a "Corporate" manual whose major components concern:
  - management organisation, and the roles and responsibilities of their major duties;
  - key performance indicators;
  - key processes: "management reviews" and "projects reviews";
  - sales-related procedures;
  - financial procedures;
  - quality management;
  - health, safety and environmental procedures;
  - human resources procedures;
- compilation of "Quality" instructions describing certain common operational processes for the entire Group;
- an "Insurance" manual, which was redrafted after all Group policies for civil liability and damages were placed with the same broker;
- a collection of procedures and rules implemented by most Group subsidiaries as part of ISO certification. These rules relate to the management of production and purchasing.

2.3.2. Internal control procedures in respect of the preparation and processing of financial and accounting information

Since 2006, a reporting and consolidation package integrated into Hyperion has been in operation. This constitutes a very significant improvement, both in terms of timing and quality of data production, and in terms of the evaluation of subsidiaries' performance and projects.

2.3.3. Risk management tools

The identification of risks was significantly stepped up in 2008 and structures were gradually set up: work undertaken was designed to both define the rules of internal control, and the standardisation and enhancement of IT security directly related to accounting and financial information.

In 2007, the Group started to work on the harmonisation and the gradual updating of all its technical and IT architecture. Standard IT tools (ERP) have been rolled out in operational units. The improvement in IT tools thus contributed to the structuring of internal controls and led in time to the achievement of productivity gains.

The importance of the changes brought about currently requires close follow-up by the Group's management of the processes and rollout of the base configuration.

The Group has already set up a framework of procedures to improve its internal controls, to harmonise practices within the Group and to optimise its operations.

The Group gives special attention to the management of human resources, and has set up procedures linking the remuneration of operational managers with the assignment of stated objectives and the measurement of their achievement, thus ensuring consistency in objectives and in the remuneration policy for managers in the entire Group.

Monthly reporting by subsidiaries is consolidated using a unique tool (Hyperion) within the Group's control and management area.

The Group has set up a number of key performance and financial indicators to enable monitoring in a common language within the Group. It also set up a budgetary process that changed significantly in 2005. This process is carried out with the participation of operational management and with strategic overviews decided by the Management Board. Budgetary reviews are carried out by the legal entity with the involvement of the Executive Committee.

A benchmark of key controls is being prepared, with the objective being to identify all the essential controls of the Group on processes considered critical by the Group's Management (Faiveley Management System). This includes dividing the business into key processes and sub-processes considered applicable to the entire business at a central and local level. This process is already in place within industrial management and shall be rapidly rolled out within the Finance Department.

Lastly, an approval process for tenders was set up at the commercial and financial level to monitor the conditions under which the various product lines offer their equipment and services to customers.

2.4. INTERNAL CONTROL PROCEDURES AND RISK MANAGEMENT FOR THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

Accounting and financial operations, as described in the quality manual, are carried out by the Finance Department for the parent company, subsidiaries and all entities.

This department is responsible for:
- supplying General Management at all times with relevant documents and indicators to manage the company's operations;
- continually anticipating and contributing to the defining of action plans, their implementation and ongoing monitoring with the company's General Management;
- ensuring the reliability of information supplied by the Company's accounting and financial information system.

The financial statements are drawn up according to:
- IFRS applicable to listed companies;
- rules laid down by Faiveley Transport, regarding the drafting of interim and annual financial statements for the parent company and subsidiaries.

Within the framework of the changeover to IFRS within the Group, the Finance Department has already introduced a number of accounting procedures and regulations which are part of the internal control framework and are covered by the audits conducted by Group and local auditors.

The preparation of accounting and financial information is carried out within the Finance Department by the Consolidation Department, which summarises accounting data and produces the Group's financial statements.

It forwards to plants and subsidiaries a timetable of tasks and checks to be carried out for the end of each accounting period. The timetable also schedules the work of Statutory Auditors to ensure certification within an acceptable timeframe, in order to allow for the approval of the financial statements by the Management Board.

Working under the direction of the Group's Financial Controller, the controllers at the head office supervise the monitoring and reporting of subsidiaries and projects in their area. They have the power to investigate and take action in conjunction with finance managers and controllers at subsidiaries.

Their work results in reports which provide a view of the accounting and financial position of subsidiaries and projects, of compliance with Group procedures and which define improvement plans to be carried out.

2.5. INTERNAL CONTROL PLAYERS

During the year ending 31 March 2011, the various internal control players operated as follows:

- **The Steering Committee**

The Steering Committee includes the members of the Management Board of the Company and certain members of the Supervisory Board. They meet monthly to evaluate operational and financial performance, to discuss matters and to define the strategic direction of the Group in its various businesses and in different markets, and each year, they supervise the preparation of the annual budget.

- **The Remuneration Committee:**

The Remuneration Committee has three members. It is chaired by an Independent Director, Philippe Alfroid, and has François Faiveley and Christopher Spencer as members.

This committee does not follow precise rules; it meets at least twice annually and its task is to determine the remuneration of General Management and of senior managers at the Faiveley Transport Group.

The Remuneration Committee deals specifically with the remuneration of senior executives; its task is to evaluate and confirm the allocation of the variable part of the remuneration of the Chairman of the Management Board of Faiveley Transport, based on individual performance objectives and on financial statements audited by the Statutory Auditors.

- **The Audit Committee**

The Audit and Risk Committee has four members: Christian Germa (Chairman), Maurice Marchand-Tonel, Philippe Alfroid and Christopher Spencer. Serge Choumaker, a member of the Supervisory Board representing employee shareholders, participates in his capacity as the Group's Director of Accounting & Consolidation. The operating principles of the Audit and Risk Committee are consistent with the findings of the Audit Committee's final report, published by the Financial Market Authority in July 2010.

Its specific task is to examine the interim and annual financial statements and the internal control procedures of the Faiveley Transport Group.

In order to carry out this assignment, the Audit and Risk Committee interviews the Statutory Auditors and the Chief Financial Officer of the Group, it examines the scope of the consolidated companies, it calls on external experts where necessary, and proceeds with an examination of risks and of significant off-balance sheet commitments. In addition, it examines the fees of the Statutory Auditors and the terms and conditions of their reappointment. It is also involved in the preparation of the Group's financial communication of the half-year and full-year financial statements and significant transactions (acquisitions, disposals, etc.).

The Audit and Risk Committee meets to approve the interim and year-end financial statements. It issues recommendations and prepares a report for the Supervisory Board of Faiveley Transport.

- **The Management Board of Faiveley Transport**

The Board is responsible for the organisation and the implementation of accounting and financial internal controls, as well as the preparation of the financial statements prior to their approval.

The Management Board approves the financial statements and the Supervisory Board carries out the verification and checks on the financial statements that it deems necessary.

- **The Executive Committee**

In addition to the Committees described above, there is an Executive Committee for the business, comprising the General Management, the Chief Financial Officer, and the heads of operational and product line management. It deals with all subjects concerning the market and the operations of the Company and it meets once a month.

Depending on the agenda prepared at the previous meeting, people external to the committee are invited to deal with matters within their area of responsibility.

- **The Finance Department**

Its contribution to internal control primarily consists of:
- management control: monitoring of the budgeting control process;
- accounting and consolidation: monitoring of the quality and reliability of subsidiaries' financial statements and of the consolidated financial statements;
- treasury: reliability of cash generation, delegation of authority, and management of exchange rate and interest rate risk;
- legal department: monitoring of contractual and insurance risk.

Management control is undertaken by a team of controllers at the head office and in each subsidiary. The Finance Department organises periodic reviews to monitor industrial activities and business projects. Every month it issues a report for General Management, Operational Management and Product Line Directors.

- **The Heads of Departments' Committee**

This is led by the Managing Director of each industrial subsidiary. It highlights Group indicators and deals with problems raised at previous meetings, looking at the solutions implemented. It meets once a month.

- **The Quality Department**

The quality system is steered by a quality department within every industrial subsidiary and involves the senior management of each entity and subsidiary. It is the subject of structured documentation, bringing together the description of processes as well as quality procedures.

The monitoring of the quality system is carried out by a steering committee for continuous improvement.

2.6. MONITORING OF SUBSIDIARIES

Faiveley Transport has a majority or joint shareholding in each of its subsidiaries. Therefore, it has a strong presence on the Management Board and within the managerial structure of each of its subsidiaries.

A monthly management report, D+3 then D+7, is provided to the parent company by each subsidiary. The parent company then decides whether to launch any appropriate actions depending on the information received.

In November 2010, the Audit and Risk Committee requested an external audit of the Chinese companies F.M.T. Shanghai Ltd and Qingdao Faiveley SRI Rail Brake Co. Ltd. These audits were conducted by Deloitte's Shanghai office. The findings of these audits are discussed below (2.8 External Controls).

2.7. STANDARDISATION OF INFORMATION TECHNOLOGY SYSTEMS

In spring 2007, Group Management decided to commit to a programme for the integration of IT systems for the whole Group, a change that will be rolled out over five to six years.

A global "Moving Forward" programme was initiated to:
- reduce the complexity of the Group's organisation and to gain speed;
- standardise processes and share information;
- create more added value for the Group and its customers.

This programme is divided into five major projects, each one led by a project manager, and it uses tools that are common to all sites (Enterprise Resource Planning, Product Data Management, Infrastructure, Business Intelligence and Reporting).

2.8. EXTERNAL CONTROLS

External controls are carried out by certification agencies. The majority of the companies within the Group have ISO 9001-2000 certification and the Group quality management system is regularly audited by an external agency.

At 31 March 2011, more than ten Group entities, including the Group's main industrial sites were subject to ISO 14001 certification related to environmental safety management systems.

The Deloitte firm in Shanghai conducted an audit of certain Chinese subsidiaries of the Group following a request by the Audit Committee. Its findings were shared with members of the Audit Committee on 16 December 2010. Based on this information, a number of corrective actions were initiated in early January 2011, in order to strengthen and/or implement new and more satisfactory controls. These actions are expected to continue for the year 2011/2012. At the same time, the results of these audits will be used to establish business surveys and send them to other subsidiaries. Based on the responses imparted to the Group, a suitable action plan will be developed for each subsidiary in order to correct any weaknesses or deficiencies found.

2.9. WORK OF THE STATUTORY AUDITORS

The Statutory Auditors are Deloitte and ECA. They act as Statutory Auditors to certain subsidiaries included in the consolidation and may carry out audits of other subsidiaries. This coverage has enabled the harmonisation of controls carried out for the entire Group and has facilitated the reporting of information made at the time of on-site checks. The work of the Statutory Auditors is the subject of numerous and regular exchanges with the Finance Department and the Audit and Risk Committee.

2.10. SHAREHOLDERS INFORMATION

All information on specific terms and conditions relating to shareholders' participation in general meetings is included in the Company's bylaws, in particular under Title V, Articles 26 and subsequent.

Please note also that items likely to have an impact in the event of a public offer, pursuant to Article L225-100-3 of the Commercial Code, appear in chapter 6 of the Company's Reference Document.

2.11. ACTION PLAN FOR THE FORTHCOMING FINANCIAL YEAR

The operational and financial management of Faiveley Transport continues to introduce the new corporate procedures and rules within the Group. With regard to this, the Moving Forward project will result in a redefinition of key processes of the business, and as a consequence, to changes in responsibilities and in organisation. These actions are designed to improve the Group's performance.

Operational Management continues to be strengthened to support the Group's growth and to improve its performance.

The Finance Department focuses its efforts on supporting the "Moving Forward" programme and Treasury management.

The preparations for the rollout of the new ERP "M3" will speed up the implementation of homogeneous processes within the various activities and will benefit internal audit. Now, two of the Group's entities use the new ERP Movex. These companies are Faiveley Transport Leipzig and Faiveley Transport Gennevilliers. At the same time, the holding company, Faiveley Transport has developed a new cash management tool (KTP) to facilitate reliable daily cash management and monitoring of hedges.

The Group pays particular attention to the implementation of procedures that have been prepared or adapted to changes in the organisation. Efforts made will be continued and stepped up in 2011/2012.

In addition to the implementation of business surveys to strengthen internal audit in all Group subsidiaries, it is also expected that the statutory auditors, as part of their work, will carry out internal audit reviews. Each year one or two topics will be chosen by the Group's Finance Department in connection with the Audit and Risk Committee and in cooperation with auditors. Reports will be prepared by the auditors for each of the subsidiaries audited. Action plans will be implemented based on these results and in accordance with their recommendations.

Chairman of the Supervisory Board

STATUTORY AUDITORS' REPORT

PREPARED IN ACCORDANCE WITH ARTICLE L225-235 OF THE FRENCH COMMERCIAL CODE *(CODE DE COMMERCE)*, ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD. FOR THE YEAR ENDED 31 MARCH 2011

This is a free translation into English of the statutory auditors' report issued in French prepared in accordance with Article L.225-235 of French company law on the report prepared by the Chairman of the the Supervisory Board on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information issued in French and is provided solely for the convenience of English speaking users.

This report should be read in conjunction and construed in accordance with French law and the relevant professional standards applicable in France.

To the shareholders,

In our capacity as statutory auditors of Faiveley Transport and in accordance with Article L225-235 of the French commercial code (code de commerce), we hereby present our report prepared by the chairman of your company in accordance with Article L225-68 of the French Commercial Code (code de commerce) for the year ended on 31 March 2011.

It is the chairman's responsibility to prepare, and submit to the Supervisory Board for of approval, a report on the internal control and risk management procedures implemented by the company and containing the other disclosures required by Article L225-68 of the French Commercial Code (code de commerce), particularly in terms of corporate governance.

It is our responsibility:
– to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
– to attest that this report contains the other disclosures required by Article L225-68 of French Commercial Code (code de commerce), it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:
– obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and the existing documentation;
– obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
– determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the chairman of the supervisory board in accordance with article L225-68 commercial code (code de commerce).

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by Article L225-68 of the French Commercial code *(code de commerce)*.

Neuilly-sur-Seine et Dijon, 20 July 2011

The Statutory Auditors

Deloitte Marque & Gendrot

Bénédicte Sabadie-Faure

Expertise Comptable et Audit

Jérôme Burrier

DATE OF APPOINTMENT AND POSITIONS HELD BY DIRECTORS

OVER THE LAST FIVE YEARS

Name and position held	Date of appointment	Term of current mandate	2010/2011
Philippe Alfroid Chairman of the Supervisory Board	27/09/2005	AGM 2011	**Chairman of the Supervisory Board:** Faiveley Transport **Board member of:** Essilor International Essilor of America Eurogerm Gemalto
François Faiveley Vice-Chairman of the Supervisory Board	27/09/2005	AGM 2011	**Vice-Chairman of the Supervisory Board of:** Faiveley Transport **Board member of:** Financière Faiveley
Christian Germa Member of the Supervisory Board	27/09/2005	AGM 2011	**Member of the Supervisory Board of:** Faiveley Transport **Board member of:** Vodafone
Edmond Ballerin Member of the Supervisory Board	27/09/2005	AGM 2011	**Member of the Supervisory Board of:** Faiveley Transport

2009/2010	2008/2009	2007/2008	2006/2007
Chairman of: Essilor of America Inc.	**Chairman of:** Essilor of America Inc. Omega Optical Holdings, Inc.		
Chairman of the Supervisory Board: Faiveley Transport	**Vice-Chairman of the Supervisory Board of:** Faiveley S.A. (until 22.09.09)	**Vice-Chairman of the Supervisory Board of:** Faiveley S.A.	**Vice-Chairman of the Supervisory Board of:** Faiveley S.A.
	Deputy CEO of: Essilor International	**Deputy CEO of:** Essilor International	**Deputy CEO of:** Essilor International
Board member of: Sperian Protection Essilor International Essilor of America Eurogerm	**Board member of:** Sperian Protection Faiveley Transport Essilor of America Gentex Optics EOA Holding Co EOA Investment Inc Omega Optical Holding Essilor Canada LTEE/Ltd, Pro-Optic Canada, Shanghai Essilor Optical Company	**Board member of:** Sperian Protection Faiveley Transport Essilor of America Gentex Optics EOA Holding Co EOA Investment Inc Omega Optical Holding Essilor Canada LTEE/Ltd, Pro-Optic Canada, Shanghai Essilor Optical Company	**Board member of:** Bacou Dalloz Faiveley Transport Essilor of America Gentex Optics EOA Holding Co EOA Investment Inc Omega Optical Holding Essilor Canada LTEE/Ltd, Pro-Optic Canada, Shanghai Essilor Optical Company
Vice-Chairman of the Supervisory Board of: Faiveley Transport	**Chairman of the Supervisory Board of:** Faiveley S.A. (jusqu'au 22.09.09)	**Chairman of the Supervisory Board of:** Faiveley S.A.	**Chairman of the Supervisory Board of:** Faiveley S.A.
Board member of: Financière Faiveley	**Board member of:** FaiveleyTransport Financière Faiveley	**Board member of:** FaiveleyTransport Financière Faiveley	**Board member of:** FaiveleyTransport Financière Faiveley
Member of the Supervisory Board of: Faiveley Transport	**Member of the Supervisory Board of:** Faiveley S.A.	**Member of the Supervisory Board of:** Faiveley S.A.	**Member of the Supervisory Board of:** Faiveley S.A.
	Board member of: Faiveley Transport	**Board member of:** Faiveley Transport	**Board member of:** Faiveley Transport
Member of the Supervisory Board of: Faiveley Transport	**Member of the Supervisory Board of:** Faiveley S.A.	**Member of the Supervisory Board of:** Faiveley S.A.	**Member of the Supervisory Board of:** Faiveley S.A.

Name and position held	Date of appointment	Term of current mandate	2010/2011
Maurice Marchand-Tonel Member of the Supervisory Board appointed further to Stéphane Volant's resignation	20/03/2009	AGM 2011	**Chairman of the Board of Directors of:** European American Chamber of Commerce (Paris) **Member of the Supervisory Board of:** Faiveley Transport **Board member of:** European American Chamber of Commerce (New York) Essilor International
Christopher Spencer Member of the Supervisory Board appointed further to Denis Grand-Perret's resignation	26/06/2009	AGM 2011	**Member of the Supervisory Board of:** Faiveley Transport **Board member of:** Adminium SAS

2009/2010	2008/2009	2007/2008	2006/2007
Chairman of the Board of Directors of: European American Chamber of Commerce (Paris)	**Chairman of the Board of Directors of:** European American Chamber of Commerce (Paris)	**Chairman of the Board of Directors of:** European American Chamber of Commerce (Paris)	**Chairman of the Board of Directors of:** European Amrican Chamber of Commerce (Paris)
Member of the Supervisory Board of: Faiveley Transport	**Member of the Supervisory Board of:** Faiveley S.A.		
	Chairman of the Supervisory Board: Du Pareil au même	**Chairman of the Supervisory Board:** Du Pareil au même	
Board member of: European American Chamber of Commerce (New York) Essilor International	**Board member of:** European American Chamber of Commerce (New York) Essilor International Faiveley Transport	**Board member of:** Financière Huysmans Essilor International Groupe Souchier Faiveley Transport	**Board member of:** Financière Huysmans Groupe Souchier DT 2000 Essilor International Faiveley Transport
Member of the Supervisory Board of: Faiveley Transport	**Member of the Supervisory Board of:** Faiveley SA		**Member of the Supervisory Board of:** Capsag Holding SAS AFE SAS
	Chairman of the Supervisory Board: Cougar Management	**Chairman of the Supervisory Board:** Cougar Management	
	Vice-Chairman of the Supervisory Board: Cougar Investissments SAS	**Vice-Chairman of the Supervisory Board:** Cougar Investissments SAS	
	Chairman of: Cougar International	**Chairman of:** Cougar International	
	Board member of: SGD Olympia Faiveley Transport	**Board member of:** SGD Olympia Faiveley Transport	**Board member of:** Olympa Group of Companies Faiveley Transport

Name and position held	Date of appointment	Term of current mandate	2010/2011
Didier Alix[1] Member of the Supervisory Board	27/11/2009	AGM 2011	**Chairman of the Supervisory Board:** Komercni Banka **Chairman and Chief Executive Officer of:** Sogébail **Member of the Supervisory Board of:** Société Générale Marocaine de Banques Faiveley Transport **Chairman of:** Fondation d'entreprise SG pour la solidarité **Board member of:** Banque Roumaine de Développement SG Private Banking Suisse Yves Rocher Crédit du Nord Rémy Cointreau Société Gestion Saint-Jean-de-Passy SGBT Luxembourg Société Générale de Banques au Cameroun Société Générale de Banques au Sénégal Société Générale de Banques en Côte d'Ivoire NSGB Franfinance
Serge Choumaker Member of the Supervisory Board, representing employee shareholders	13/09/2010	AGM 2013	**Member of the Supervisory Board of:** Faiveley Transport

(1) Didier Alix was appointed by the Supervisory Board on 27 November 2009 to replace Christian Baffy. His appointment was ratified by the Combined General Meeting on 13 September 2010.

2009/2010	2008/2009	2007/2008	2006/2007
Chairman of the Supervisory Board: Komercni Banka	**Chairman of the Supervisory Board:** Komercni Banka	**Chairman of the Supervisory Board:** Komercni Banka	**Chairman of the Supervisory Board:** Komercni Banka
Chairman and Chief Executive Officer of: Sogébail	**Chairman and Chief Executive Officer of:** Sogébail	**Chairman and Chief Executive Officer of:** Sogébail	**Chairman and Chief Executive Officer of:** Sogébail
Member of the Supervisory Board of: Société Générale Marocaine de Banques Faiveley Transport	**Member of the Supervisory Board of:** Société Générale Marocaine de Banques	**Member of the Supervisory Board of:** Société Générale Marocaine de Banques	**Member of the Supervisory Board of:** Société Générale Marocaine de Banques Groupama Banque
Deputy CEO of: Société Générale (until 30 September 2009)	**Deputy CEO of:** Société Générale	**Deputy CEO of:** Société Générale	**Deputy CEO of:** Société Générale
Board member and Vice-Chairman of: Société Générale de Banques en Côte d'Ivoire	**Board member and Vice-Chairman of:** Société Générale de Banques en Côte d'Ivoire	**Board member and Vice-Chairman of:** Société Générale de Banques en Côte d'Ivoire	**Board member and Vice-Chairman of:** Société Générale de Banques en Côte d'Ivoire
Permanent representative of Salvepar on the Supervisory Board of: Latécoère	**Permanent representative of Salvepar on the Supervisory Board of:** Latécoère	**Permanent representative of Salvepar on the Supervisory Board of:** Latécoère	**Permanent representative of Salvepar on the Supervisory Board of:** Latécoère
Board member of: Crédit du Nord Franfinance Yves Rocher Banque Roumaine de Développement National Société Générale Bank SAE (NSGB) Société Générale de Banques au Cameroun Société Générale de Banques au Sénégal SG Private Banking Suisse SGBT Luxembourg	**Board member of:** Crédit du Nord Franfinance Yves Rocher Banque Roumaine de Développement National Société Générale Bank SAE (NSGB) Société Générale de Banques au Cameroun Société Générale de Banques au Sénégal Société Générale au Liban	**Board member of:** Crédit du Nord Franfinance Yves Rocher Banque Roumaine de Développement National Société Générale Bank SAE (NSGB) Société Générale de Banques au Cameroun Société Générale de Banques au Sénégal Société Générale au Liban	**Board member of:** Franfinance Yves Rocher Banque Roumaine de Développement National Société Générale Bank SAE (NSGB) Société Générale de Banques au Cameroun Société Générale de Banques au Sénégal Société Générale au Liban MISR International Bank Sogessur Fiditalia

Name and position held	Date of appointment	Term of current mandate	2010/2011
Robert Joyeux[2] Chairman of the Management Board	27/09/2005	31/03/2011	**Chairman of the Management Board of:** Faiveley Transport **Chairman of the Board of Directors of:** Faiveley Transport USA Inc. Faiveley Transport Acquisition AB Faiveley Transport Malmö AB Faiveley Transport Nordic AB Faiveley Transport Tamworth Faiveley Transport Iberica Faiveley Transport Far East Ltd. **Chairman of SAS** Faiveley Transport Tours SAS **Chairman of the Supervisory Board:** Faiveley Transport Lekov **Board member of:** Qingdao Faiveley Sri Rail Brake Co. Ltd Datong Faiveley Coupler Systems Co. Ltd Sab Iberica S.A. Sab Wabco UK Ltd Sab Wabco Investment Ltd Sab Wabco D&M Ltd Sab Wabco Products Ltd SW D&M Products Ltd Sab Wabco Sales Ltd Faiveley Transport Birkenhead Faiveley Transport Belgium NV Faiveley Transport Korea Faiveley Transport Italia Shanghai Faiveley Railway Technology Transequipos Ellcon CIM **Manager of:** Faiveley Transport Verwaltungs GmbH

2009/2010	2008/2009	2007/2008	2006/2007
Chairman of the Management Board of: Faiveley Transport	**Chairman of the Management Board of:** Faiveley S.A.	**Chairman of the Management Board of:** Faiveley S.A.	**Chairman of the Management Board of:** Faiveley S.A.
Chairman of the Board of Directors of: Faiveley Transport USA Inc. Faiveley Transport Acquisition AB Faiveley Transport Malmö AB Faiveley Transport Nordic AB Faiveley Transport Tamworth Faiveley Transport Iberica Faiveley Transport Far East Ltd.	**Chairman of the Board of Directors of:** Faiveley Transport, Faiveley Transport Acquisition AB Faiveley Transport Malmö AB Faiveley Transport Nordic AB Faiveley Transport Tamworth Faiveley Transport Iberica Faiveley Transport Far East Ltd. Faiveley Transport USA Inc.	**Chairman of the Board of Directors of:** Faiveley Transport Faiveley Transport Acquisition AB Faiveley Transport Malmö AB Faiveley Transport Nordic AB Faiveley Transport Tamworth Faiveley Transport Iberica Faiveley Transport Far East Ltd. Faiveley Transport USA Inc.	**Chairman of the Board of Directors of:** Faiveley Transport Faiveley Transport Acquisition AB Faiveley Transport Malmö AB Faiveley Transport Nordic AB Faiveley Transport Tamworth Faiveley Transport Iberica Faiveley Transport Far East Ltd Faiveley Transport USA Inc.
Chairman of SAS Faiveley Transport Tours SAS	**Chairman of SAS** Faiveley Management SAS Faiveley Transport Tours SAS	**Chairman of SAS** Faiveley Management SAS Faiveley Transport Tours SAS	**Chairman of SAS** Faiveley Management SAS Faiveley Transport Alpha SAS
Board member of: Qingdao Faiveley Sri Rail Brake Co. Ltd Datong Faiveley Coupler Systems Co. Ltd Sab Iberica S.A. Sab Wabco UK Ltd Sab Wabco Investment Ltd Sab Wabco D&M Ltd Sab Wabco Products Ltd SW D&M Products Ltd Sab Wabco Sales Ltd Faiveley Transport Birkenhead Faiveley Transport Belgium NV Faiveley Transport Korea Faiveley Transport Italia Shanghai Faiveley Railway Technology Transequipos Ellcon CIM	**Board member of:** Qingdao Faiveley Sri Rail Brake Co. Ltd Datong Faiveley Coupler Systems Co. Ltd Sab Iberica S.A. Sab Wabco UK Ltd, Sab Wabco Sales Ltd Sab Wabco Investment Ltd Sab Wabco D&M Ltd Sab Wabco Products Ltd SW D&M Products Ltd Faiveley Transport Birkenhead Faiveley Transport Belgium NV Faiveley Transport Korea Faiveley Transport Italia Shanghai Faiveley Railway Technology Transequipos CIM	**Board member of:** Qingdao Faiveley Sri Rail Brake Co. Ltd Datong Faiveley Coupler Systems Co. Ltd Sab Iberica S.A. Sab Wabco UK Ltd, Sab Wabco Sales Ltd Sab Wabco Investment Ltd Sab Wabco D&M Ltd Sab Wabco Products Ltd SW D&M Products Ltd Faiveley Transport Birkenhead Faiveley Transport Belgium NV Faiveley Transport Korea Faiveley Transport Italia Shanghai Faiveley Railway Technology Transequipos CIM	**Board member of:** Sab Iberica Faiveley Transport Amiens Sab Wabco UK Ltd, Sab Wabco Sales Ltd Sab Wabco Investment Ltd Sab Wabco D&M Ltd Sab Wabco Products Ltd SW D&M Products Ltd Faiveley Transport Birkenhead Faiveley Transport Belgium NV Faiveley Transport Korea Faiveley Transport Italia Shanghai Faiveley Railway Technology Transequipos CIM
Manager of: Faiveley Transport Verwaltungs GmbH	**Manager of:** Faiveley Transport Beteiligungs GmbH Faiveley Transport Verwaltungs GmbH Sofaport	**Manager of:** Faiveley Transport Beteiligungs GmbH Faiveley Transport Verwaltungs GmbH Sofaport	**Manager of:** Faiveley Transport Beteiligungs Faiveley Transport Verwaltungs Sofaport

Name and position held	Date of appointment	Term of current mandate	2010/2011
Erwan Faiveley Member of the Management Board	27/09/2005	2011	**Member of the Management Board of:** Faiveley Transport **Chairman of SA:** Financière Faiveley **Chairman of SAS:** François Faiveley Participations Consortium Viticole & Vinicole de Bourgogne **Permanent representative of:** FFP in Société Bourguignonne d'Exploitation Viticoles **Manager of:** Faiveley Frères Société Civile Viticole Faiveley SCI du Dauphiné SCI Voir Venise SCI du 13 square Henri Pâté
Étienne Haumont(3) Member of the Management Board	27/09/2005	1/09/2010	**Member of the Management Board of:** Faiveley Transport **Board member of:** Faiveley Transport Acquisition AB, Faiveley Transport Malmö AB Faiveley Transport Nordic AB Transequipos Sab Wabco UK Ltd, Sab Wabco Sales Ltd Sab Wabco Investment Ltd Sab Wabco D&M Ltd Sab Wabco Products Ltd SW D&M Products Ltd Faiveley Transport Birkenhead Faiveley Transport Belgium NV Faiveley Transport India Ltd Faiveley Transport Tremosnice sro Faiveley Transport Polska Faiveley Transport Iberica **Manager of:** Faiveley Transport Verwaltungs GmbH

2009/2010	2008/2009	2007/2008	2006/2007
Member of the Management Board of: Faiveley Transport **Chairman of SA:** Financière Faiveley **Chairman of SAS:** François Faiveley Participations Consortium Viticole & Vinicole de Bourgogne **Permanent representative of:** FFP in Société Bourguignonne d'Exploitation Viticoles **Manager of:** Faiveley Frères Société Civile Viticole Faiveley SCI du Dauphiné SCI Voir Venise SCI du 13 square Henri Pâté	**Member of the Management Board of:** Faiveley S.A. **Chairman of SA:** Financière Faiveley **Chairman of SAS:** François Faiveley Participations Consortium Viticole & Vinicole de Bourgogne **Permanent representative of:** FFP in Société Bourguignonne d'Exploitation Viticoles **Manager of:** Faiveley Frères Société Civile Viticole Faiveley SCI du Dauphiné SCI Voir Venise SCI du 13 square Henri Pâté	**Member of the Management Board of:** Faiveley S.A. **Chairman of SA:** Financière Faiveley **Chairman of SAS:** François Faiveley Participations Consortium Viticole & Vinicole de Bourgogne **Permanent representative of:** FFP in Société Bourguignonne d'Exploitation Viticoles **Manager of:** Faiveley Frères Société Civile Viticole Faiveley SCI du Dauphiné SCI Voir Venise SCI du 13 square Henri Pâté	**Member of the Management Board of:** Faiveley S.A. **Chairman of SA:** Financière Faiveley **Chairman of SAS:** François Faiveley Participations Consortium Viticole & Vinicole de Bourgogne **Permanent representative of:** FFP in Société Bourguignonne d'Exploitation Viticoles **Manager of:** Faiveley Frères Société Civile Viticole Faiveley SCI du Dauphiné SCI Voir Venise SCI du 13 square Henri Pâté
Member of the Management Board of: Faiveley Transport **Board member of:** Faiveley Transport Acquisition AB, Faiveley Transport Malmö AB Faiveley Transport Nordic AB Transequipos Sab Wabco UK Ltd, Sab Wabco Sales Ltd Sab Wabco Investment Ltd Sab Wabco D&M Ltd Sab Wabco Products Ltd SW D&M Products Ltd Faiveley Transport Birkenhead Faiveley Transport Belgium NV Faiveley Transport India Ltd Faiveley Transport Tremosnice sro Faiveley Transport Polska Faiveley Transport Iberica **Manager of:** Faiveley Transport Verwaltungs GmbH	**Member of the Management Board of:** Faiveley S.A. **Board member of:** Faiveley Transport Acquisition AB Faiveley Transport Malmö AB Faiveley Transport Nordic AB Transequipos Sab Wabco UK Ltd, Sab Wabco Sales Ltd Sab Wabco Investment Ltd Sab Wabco D&M Ltd Sab Wabco Products Ltd SW D&M Products Ltd Faiveley Transport Birkenhead Faiveley Transport Belgium NV Faiveley Transport India Ltd Faiveley Transport Tremosnice sro Faiveley Transport Polska Faiveley Transport Iberica **Manager of:** Faiveley Transport Witten GmbH Faiveley Transport Verwaltungs GmbH	**Member of the Management Board of:** Faiveley S.A. **Board member of:** Faiveley Transport Acquisition AB, Faiveley Transport Malmö AB Faiveley Transport Nordic AB Transequipos Sab Wabco UK Ltd, Sab Wabco Sales Ltd Sab Wabco Investment Ltd Sab Wabco D&M Ltd Sab Wabco Products Ltd SW D&M Products Ltd Faiveley Transport Birkenhead Faiveley Transport Belgium NV Faiveley Transport India Ltd Faiveley Transport Tremosnice sro Faiveley Transport Polska Faiveley Transport Iberica **Manager of:** Faiveley Transport Witten GmbH Faiveley Transport Verwaltungs GmbH	**Member of the Management Board of:** Faiveley S.A. **Board member of:** Faiveley Transport Acquisition AB Faiveley Transport Malmö AB Faiveley Transport Nordic AB Faiveley Transport Amiens Sab Wabco UK Ltd, Sab Wabco Sales Ltd, Sab Wabco Investment Ltd Sab Wabco D&M Ltd Sab Wabco Products Ltd SW D&M Products Ltd Faiveley Transport Birkenhead Faiveley Transport Belgium NV Faiveley Transport India Ltd Faiveley Transport Tremosnice sro Faiveley Transport Polska Faiveley Transport Iberica Transequipos **Manager of:** Faiveley Transport Remscheid GmbH, Faiveley Transport Verwaltungs GmbH

Name and position held	Date of appointment	Term of current mandate	2010/2011
Thierry Barel[2] Chairman of the Management Board	22/09/09	2011	**Chairman of the Management Board:** Faiveley Transport Faiveley Transport Lekov **Chairman of SAS:** Faiveley Transport NSF Faiveley Transport Amiens Faiveley Transport Tours **Chairman of the Board of Directors of:** Faiveley Transport USA Inc. Faiveley Transport Acquisition AB Faiveley Transport Malmö AB Faiveley Transport Nordic AB Faiveley Transport Tamworth Faiveley Transport Iberica Faiveley Transport Far East Ltd. **Board member of:** Faiveley Transport Italia Sab Wabco Wabco Uk Ltd Sab Wabco Ltd Sab Wabco Investment Ltd Sab Wabco D&M Ltd Sab Wabco Products Ltd SW D&M Products Ltd Faiveley Transport Birkenhead Ltd Faiveley Transport India Faiveley Transport Korea Faiveley Transport Tresmonice Ellcon Faiveley Transport Plzen s.r.o Shijiazhuang Jiaxiang Precision Machinery Co Ltd Transequipos Qingdao Faiveley Sri Rail Brake Co. Ltd Datong Faiveley Coupler Systems Co. Ltd Faiveley Transport Belgium NV Shanghai Faiveley Railway Technology Amsted Rail-Faiveley LLC **Manager of:** Faiveley Transport Witten GmbH Faiveley Transport Verwaltungs GmbH

(2) Robert Joyeux retired and resigned from his position as Chairman of the Management Board on 31 March 2011. Thierry Barel and Guillaume Bouhours were respectively appointed Chairman of the Management Board and member of the Management Board on 1 april 2011.

(3) Etienne Haumont resigned from his position as a member of the Management Board on 1 September 2010 further to his leaving the Company.

2009/2010	2008/2009	2007/2008	2006/2007
Chairman of the Management Board: Faiveley Transport	**Chairman of the Management Board:** Faiveley SA (depuis le 22.09.09)		
Chairman of SAS: Faiveley Transport NSF Faiveley Transport Amiens	**Chairman of SAS:** Faiveley Transport NSF Faiveley Transport Amiens KIS (until 30 April 2009)	**Chairman of SAS:** KIS	
Chief Executive Officer of: Faiveley Transport Tours			
Board member of: Faiveley Transport Acquisition AB Faiveley Transport Malmö AB Faiveley Transport Nordic AB Faiveley Transport Italia Sab Wabco Wabco Uk Ltd Sab Wabco Ltd Sab Wabco Investment Ltd Sab Wabco D&M Ltd Sab Wabco Products Ltd SW D&M Products Ltd Faiveley Transport Birkenhead Ltd Faiveley Transport Iberica Faiveley Transport India Faiveley Transport Korea Faiveley Transport Tresmonice Faiveley Transport Leipzig GmbH & Co.KG Faiveley Transport USA Inc Ellcon Faiveley Transport Lekov Faiveley Transport Plzen s.r.o Shijiazhuang Jiaxiang Precision Machinery Co Ltd Prontoshop Transequipos Faiveley Transport Leipzig GmbH & Co.KG	**Board member of:** Photo-Me International (until 3 July 2009) Prontoshop	**Board member of:** Photo-Me International Prontoshop	
Manager of: Faiveley Transport Witten GmbH Faiveley Transport Verwaltungs GmbH			

DIRECTORS' REMUNERATION

Table summarising the remuneration and options and shares granted to each Management Board member

	2009/2010 FY	2010/2011 FY
Robert Joyeux *, Chairman of the Management Board and CEO		
Remuneration during the financial year	803,839	975,576
Value of options granted during the financial year	–	–
Value of performance-based shares granted during the financial year	–	–
TOTAL	**803,839**	**975,576**
Thierry Barel*, Member of the Management Board		
Remuneration during the financial year	294,899	660,168
Value of options granted during the financial year	783,108	–
Value of performance-based shares granted during the financial year	–	156,051
TOTAL	**1,078,007**	**816,219**
Erwan Faiveley, Member of the Management Board		
Remuneration during the financial year	116,600	159,950
Value of options granted during the financial year	–	–
Value of performance-based shares granted during the financial year	–	–
TOTAL	**116,600**	**159,950**
Etienne Haumont,** Member of the Management Board		
Remuneration during the financial year	314,945	806,208
Value of options granted during the financial year	–	–
Value of performance-based shares granted during the financial year	–	–
TOTAL	**314,945**	**806,208**

* Robert Joyeux retired and resigned from his position as Chairman of the Management Board on 31 March 2011. Thierry Barel was appointed as Chairman of the Management Board and CEO on 1 April 2011.

** Etienne Haumont resigned from his position as Member of the Management Board on 1 September 2010 and gave up his position as Chief Financial Officer on 24 September 2010. A transaction of €516,000 was agreed with Faiveley Transport on the termination of his contract on amicable terms. Etienne Haumont did not receive any special remuneration in his capacity as Member of the Management Board. No remuneration or compensation was paid to Etienne Haumont upon his leaving his position as Member of the Management Board of Faiveley Transport.

Guillaume Bouhours was appointed as Member of the Management Board on 1 April 2011. He did not receive any remuneration as Member of the Management Board for the year ended 31 March 2011.

Summary table of the remuneration of each Management Board Member

	2009/2010 FY		2010/2011 FY	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Robert Joyeux,				
Chairman of the Management Board and CEO				
Fixed remuneration (gross before tax)	450,092	450,092	603,163	603,163
Variable remuneration* (gross before tax)	347,630	347,630	366,300	366,300
Exceptional remuneration (gross before tax)	–	–	–	–
Directors' fees	–	–	–	–
Benefits in kind (company car)	6,116	6,116	6,113	6,113
TOTAL	**803,839**	**803,839**	**975,576**	**975,576**
Thierry Barel,				
Member of the Management Board				
Fixed remuneration (gross before tax)	293,102	293,102	407,873	407,873
Variable remuneration* (gross before tax)	–	–	249,600	249,600
Exceptional remuneration (gross before tax)	–	–	–	–
Directors' fees	–	–	–	–
Benefits in kind (company car)	1,797	1,797	2,695	2,695
TOTAL	**294,899**	**294,899**	**660,168**	**660,168**
Erwan Faiveley,				
Member of the Management Board				
Fixed remuneration (gross before tax)	90,000	90,000	91,500	91,500
Variable remuneration* (gross before tax)	–	–	27,000	27,000
Exceptional remuneration (gross before tax)	–	–	–	–
Directors' fees**	11,400	11,400	–	–
Benefits in kind (Housing allowance)	15,200	15,200	41,450	41,450
TOTAL	**116,600**	**116,600**	**159,950**	**159,950**
Etienne Haumont,				
Member of the Management Board (until 1 September 2010)				
Fixed remuneration (gross before tax)	203,986	203,986	137,053	137,053
Variable remuneration (gross before tax)	107,530	107,530	150,840	150,840
Exceptional remuneration (gross before tax)	–	–	516,600	516,600
Directors' fees	–	–	–	–
Benefits in kind (company car)	3,429	3,429	1,715	1,715
TOTAL	**314,945**	**314,945**	**806,208**	**806,208**

* The variable part is measured in relation to both Group and individual objectives. Group objectives are based on EBITDA and cash generation. Individual objectives are specified at the start of each financial year with line supervisors and are also presented to the Remuneration Committee in respect of Executive Committee members. A decision on the final vesting of the variable part of remuneration based on individual objectives (bonus) is reached following individual interviews and, as regards Group objectives, based on the audited financial statements. These recommendations are subsequently debated within the Remuneration Committee. The Chairman of the Remuneration Committee then presents a summary to the Supervisory Board.

** Erwan Faiveley received Directors' fees in 2009/2010 for participating in various steering committees and for contributing to the Supervisory Board's work.

Directors' fees and other remuneration received by the Members of the Supervisory Board

Members of the Supervisory Board	Amounts paid during the 2009/2010 financial year	Amounts paid during the 2010/2011 financial year
Philippe Alfroid		
Directors' fees	32,800	47,200
Other remuneration	–	–
François Faiveley		
Directors' fees	13,600	20,000
Other remuneration	–	–
Christian Germa		
Directors' fees	22,000	23,600
Other remuneration	–	–
Edmond Ballerin		
Directors' fees	1,600	2,000
Other remuneration	–	–
Maurice Marchand-Tonel		
Directors' fees	12,800	17,200
Other remuneration	–	–
Christopher Spencer		
Directors' fees	–	18,400
Other remuneration	–	–
Didier Alix		
Directors' fees	–	10,400
Other remuneration	–	–
Serge Choumaker		
Directors' fees	–	–
Other remuneration	–	–
Stéphane Volant*		
Directors' fees	3,200	–
Other remuneration	–	–
Christian Baffy*		
Directors' fees	1,600	–
Other remuneration	–	–
Denis Grand-Perret*		
Directors' fees	1,600	–
Other remuneration	–	–
TOTAL	**89,200**	**138,800**

* Stéphane Volant resigned as Director in March 2009, Denis Grand-Perret resigned as Director in June 2009 and Christian Baffy resigned as Director in November 2009.

	Work contract		Supplementary pension plan		Compensation or benefits due or likely to be due as a result of termination or change of function		Non competition compensation	
	Yes	No	Yes	No	Yes	No	Yes	No
Robert Joyeux Chairman of the Management Board Start term of office: 27/09/2005 End of term of office: 31/03/2011	x [(1)]			x		x		x
Thierry Barel Member of the Management Board Start term of office: 22/09/2009 End of term of office: 2012	x			x		x		x
Erwan Faiveley Membre du Member of the Management Board Start term of office: 27/09/2005 End of term of office: 2011	x [(2)]			x		x		x
Étienne Haumont Member of the Management Board Start term of office: 27/09/2005 End of term of office: 01/09/2010	x			x		x		x

(1) Robert Joyeux's employment contract was suspended for the duration of his term of office.

(2) Erwan Faiveley is an employee of F.F.P.

Information on free shares allocated to Management Board members during the year

Name of Management Board members	Number and date of plan	Value of allocated share using the method per the consolidated financial statements	Number of options granted during the period	Date of allocation	Date of availability of shares
Robert JOYEUX	None	None	None	None	None
Thierry BAREL	03/12/2010	31.21	5,000	03/12/2012	03/12/2014
Erwan FAIVELEY	None	None	None	None	None
Etienne HAUMONT	None	None	None	None	None

Principal characteristics of the share purchase or subscription option plans at 31 March 2011

Information on share purchase or subscription options

Date of General Meeting	27/09/05										22/09/09
Date of Management Board meeting	24/11/05	29/12/05	22/06/06	25/10/06	15/11/06	01/12/06	02/04/07	19/02/08	29/03/08	16/07/08	23/11/09
Total number of shares which may be purchased	221,760	6,720	31,360	6,720	4,480	11,200	26,880	26,880	13,440	22,600	144,000
Of which the number which may be purchased by members of the Management Board: - Thierry Barel	–	–	–	–	–	–	–	–	–	–	40,000
Date from which options can be exercised	24/11/07	29/12/07	22/06/08	25/10/08	15/11/08	01/12/08	02/04/09	19/02/10	29/03/10	17/07/10	23/11/13
Expiry date	23/11/12	28/12/12	21/06/13	24/10/13	14/11/13	30/11/13	01/04/14	18/02/15	28/03/15	16/07/15	23/11/17
Exercise price*	€26.79	€29.75	€30.48	€33.77	€34.13	€34.01	€42.80	€32.31	€34.08	€40.78	€54.91
Number of options subscribed 31/03/2011	142,109	6,720	21,320	6,720	4,480	7,330	6,720	3,100	–	–	–
Number of options cancelled or expired	47,040	–	4,480	–	–	–	–	–	–	–	–
Options remaining at the end of the period	32,611	–	5,560	–	–	3,870	20,160	23,780	13,440	22,600	144,000

* The exercise price is equal to 95% of the average 20 trading days preceding the date of the Management Board meeting at which the options were granted.

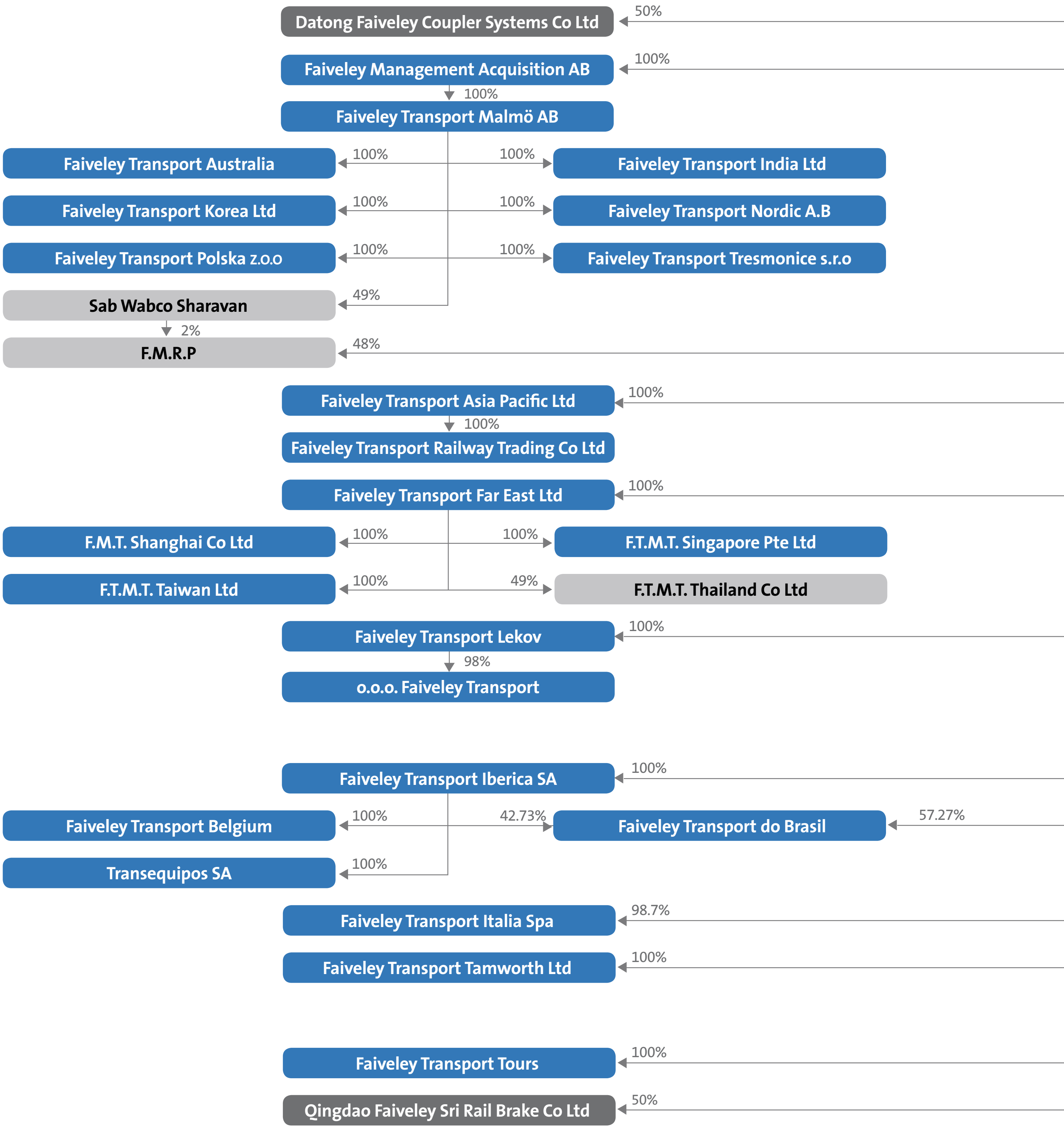
Options to subscribe for or purchase shares granted to the non executive employees holding the highest number of shares and options exercised by the latter

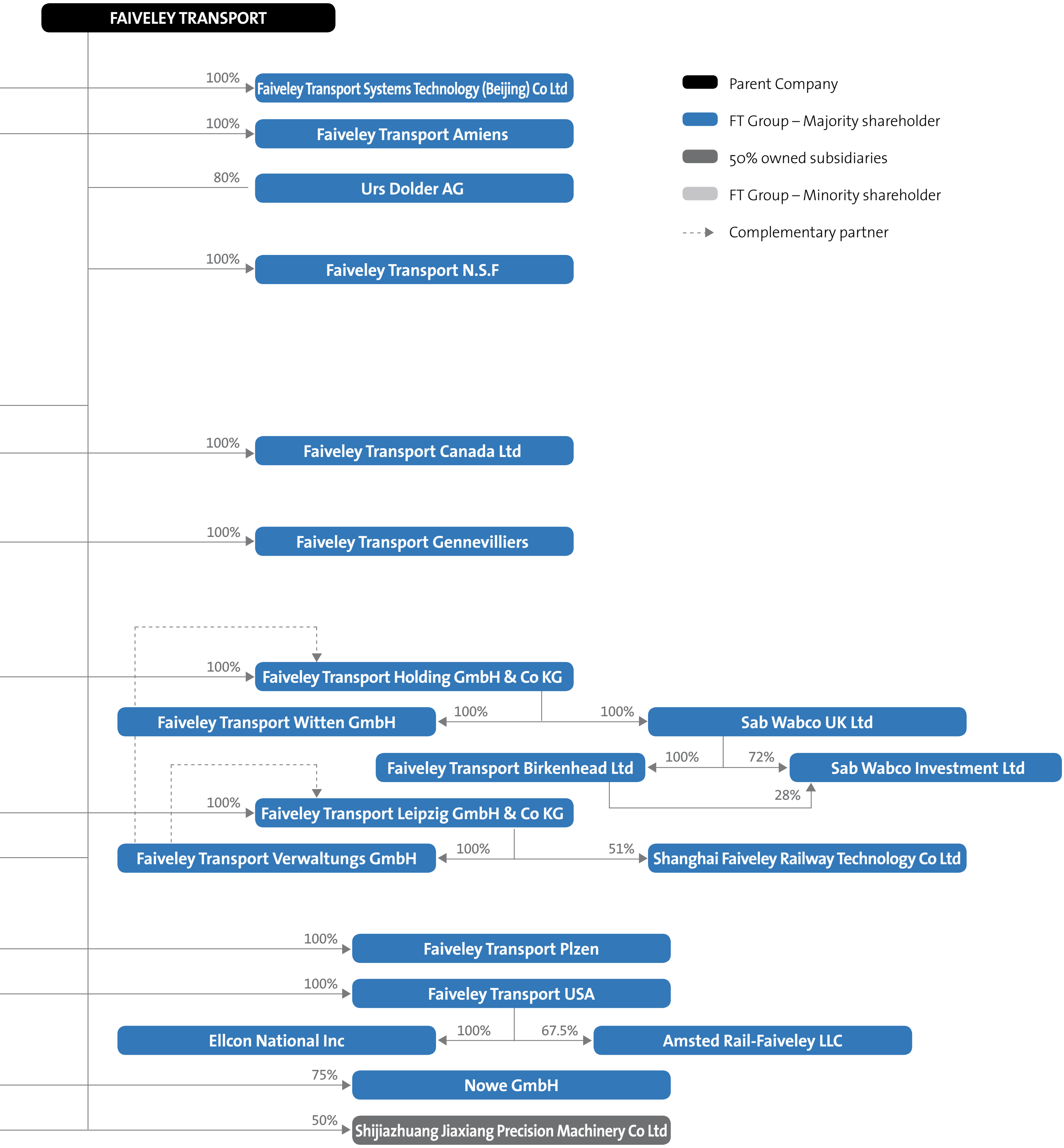
	Total number of options granted/ shares purchased	Weighted Average price	24/11/05	29/12/05	22/06/06	25/10/06	15/11/06	01/12/06	02/04/07	19/02/08	29/03/08	16/07/08	23/11/09
Options granted by the issuer and all companies in the scope of the share option plan, to the 10 employees holding the highest number of share options	189,180	47.82	31,360	–	–	–	–	–	–	6,720	–	22,600	128,500
Options held on the issuer and all groups included in the scope of the share option plan during the period, by the 10 employees holding the highest number of share options.	57,635	30.68	22,179	6,720	17,570	–	–	4,446	6,720	–	–	–	–

OTHER INFORMATION

GROUP STRUCTURE

FAIVELEY TRANSPORT GROUP SIMPLIFIED STRUCTURE 31 MARCH 2011




FAIVELEY TRANSPORT
100%
Faiveley Transport Systems Technology (Beijing) Co Ltd
100%
Faiveley Transport Amiens
80%
Urs Dolder AG
100%
Faiveley Transport N.S.F
100%
Faiveley Transport Canada Ltd
100%
Faiveley Transport Gennevilliers
100%
Faiveley Transport Holding GmbH & Co KG
100%
Faiveley Transport Witten GmbH
100%
Sab Wabco UK Ltd
Faiveley Transport Birkenhead Ltd
100%
72%
Sab Wabco Investment Ltd
28%
100%
Faiveley Transport Leipzig GmbH & Co KG
Faiveley Transport Verwaltungs GmbH
100%
51%
Shanghai Faiveley Railway Technology Co Ltd
100%
Faiveley Transport Plzen
100%
Faiveley Transport USA
Ellcon National Inc
100%
67.5%
Amsted Rail-Faiveley LLC
75%
Nowe GmbH
50%
Shijiazhuang Jiaxiang Precision Machinery Co Ltd
Parent Company
FT Group – Majority shareholder
50% owned subsidiaries
FT Group – Minority shareholder
Complementary partner

CERTIFICATE OF THE PERSON RESPONSIBLE FOR THE ANNUAL REPORT

"I confirm that, to my knowledge, the financial statements have been prepared pursuant to the applicable accounting standards and provide a true and fair view of the assets, financial position and profit of Faiveley Transport and all the companies included in the consolidation scope, and that the management report provides a fair presentation of the business trend, the results and the financial position of Faiveley Transport and all the companies included in the consolidation scope, as well as a description of the principal risks and uncertainties they face."

Chairman of the Management Board of Faiveley Transport

Chief Executive Officer of Faiveley Transport

Thierry BAREL

STATUTORY AUDITORS' FEES

Articles 222-8 of the General Regulations of the AMF (Autorité des Marchés Financiers)

Fees payable to the Statutory Auditors and members of their network within the framework of assignments relating to the closing of accounts at 31 March 2011, as well as fees paid at 31 March 2010 and 31 March 2009 were as follows:

	ECA			DELOITTE		
	2010/2011	2009/2010	2008/2009	2010/2011	2009/2010	2008/2009
Audit:						
Statutory Auditors, certification, review of individual and consolidated financial statements:						
Parent Company	173	237	334	206	234	309
Subsidiaries	275	287	212	67	76	205
Other services directly related to the audit assignment	–	–	–	–	–	–
SUB-TOTAL AUDIT FEES	**448**	**524**	**546**	**273**	**310**	**515**
Other services:						
Legal, tax, corporate	–	–	–	–	–	–
Other	–	–	–	–	–	–
SUB-TOTAL OTHER SERVICES	**–**	**–**	**–**		**–**	**–**
TOTAL	**448**	**524**	**546**	**273**	**310**	**515**

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Faiveley
TRANSPORT

Limited liability company governed
by a Management Board and a Supervisory Board
with share capital of €14,404,711
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BUILDING SYSTEMS
FOR TRAINS OF THE FUTURE

2011/2012 FINANCIAL REPORT

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Faiveley TRANSPORT

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FINANCIAL REPORT

MANAGEMENT REPORT OF THE MANAGEMENT BOARD

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To the Combined General Meeting of 14 September 2012

Ladies and gentlemen,

We have convened this General Meeting, in compliance with legal and regulatory requirements, to submit for your approval the Faiveley Transport annual and consolidated financial statements for the year ended 31 March 2012.

These financial statements have been prepared in accordance with Articles L. 232-1 and L. 233-16 of the Commercial Code.

The parent company and consolidated financial statements were approved by the Management Board on 6 June 2012, and were presented to the Supervisory Board and approved at their meeting of 6 June 2012.

This report has been compiled pursuant to Articles L. 232-1 paragraph 2 and L. 233-26 of the Commercial Code. It was made available to the shareholders prior to the General Meeting in accordance with legal and regulatory requirements.

The annual financial statements of Faiveley Transport and the consolidated financial statements have been compiled in accordance with legal and regulatory rules of presentation and valuation.

- Changes in Group governance:
  Robert Joyeux resigned from his duties as Chief Executive Officer and Chairman of the Management Board of Faiveley Transport on 31 March 2011. On 1 April 2011, Thierry Barel, previously Deputy Chief Executive Officer, was appointed Chief Executive Officer and Chairman of the Management Board. On the same day, Guillaume Bouhours was appointed as a member of the Management Board.

- Changes in the share capital of Faiveley Transport:
  As part of the acquisition of US-based Graham-White Manufacturing Co., finalised on 3 February 2012, 209,441 new Faiveley Transport shares, representing 1.45% of the Company's share capital, were issued to Graham-White Manufacturing Co.'s former shareholders.

  The share capital of Faiveley Transport now amounts to €14,614,152.

- On 27 July 2011, Faiveley Transport signed an amendment to the syndicated credit facility set up in December 2008. This amendment was granted unanimously by the nine contributing banks, thus confirming their confidence in the Group's credit rating.

  The total amount of funding remained unchanged, including an amortising term loan of €343 million (balance at 30 June 2011) and a revolving credit facility of €49 million.

  The main amendments included:
  - a 2.5-year extension of the loan maturity to 23 June 2016, instead of 23 December 2013,
  - a more favourable amortisation profile, with mandatory annual instalments of €35 million, compared to €49 million previously,
  - new covenants providing additional flexibility, with a leverage ratio (Net Debt/EBITDA) not exceeding 2.5x and a gearing ratio (Net Debt/Equity) not exceeding 150%,
  - the option of using the revolving facility for merger and acquisition transactions,
  - the release of the pledging on shares of operating subsidiaries.

  This refinancing transaction, carried out at favourable financial conditions, provides the Group with increased financial flexibility for the next five years and with the necessary resources to continue to expand, through both organic growth and acquisitions.

  During the second half of the year, the Group put several financing facilities into place:
  - a €20 million revolving facility, maturing on 18 November 2016, for the Group's general requirements or potential acquisitions;
  - a €15 million revolving facility maturing on 23 June 2016, for the Group's general requirements or potential acquisitions, to be repaid in annual instalments of €1.5 million from 23 December 2012;
  - a €30 million bridge loan to finance the acquisition of Graham-White Manufacturing Co., maturing on 14 January 2013 unless the acquisition is refinanced prior to that date. Since refinancing took place on 12 April 2012 (see below § A.4.4.2 Financing conditions), this loan was repaid on 13 April 2012.

- On 29 August, Wabtec Corporation appealed against the verdict of the New York Court, which ordered this company to pay damages of USD 18.1 million plus interest, i.e. a total of USD 19.6 million to Faiveley Transport USA, Faiveley Transport Nordic, Faiveley Transport Amiens and Ellcon National for trade secret misappropriation, unfair competition, and unjust enrichment. At the same time, Faiveley Transport also appealed against the verdict of the judge of the New York Court, who overruled Faiveley's claim for punitive damages.

- The Combined General Meeting of 14 September 2011 delegated powers to the Management Board for the allocation of ordinary shares of the Company free of charge, either new or already issued, within the limit of 1% of the share capital of the Company on the day of said General Meeting.

At its meeting held on 4 January 2012, the Management Board decided to implement this delegation and to allocate free shares. This decision was made as part of an employee shareholding plan aimed at a broader population of executives. The programme provides that an employee holding shares in the Company in a personal capacity may be granted two free shares for every share held, not exceeding a limit set for each level of management.

At its meeting held on 5 March 2012, the Management Board set the final list of beneficiaries and the number of free shares to be granted. A total of 79,224 shares are thus to be granted to 151 beneficiaries. The allocation of the shares will be final at the end of a two-year vesting period, or four years for non-French residents.

Thierry Barel and Guillaume Bouhours, both beneficiaries of free shares under this plan, are subject to an additional retention condition in their capacity as executive officers. They must retain at least 50% of shares granted to them by the Management Board under this new plan after the end of the vesting period defined by plan regulations. This rule will apply as long as they do not hold shares of the Company, acquired in the various plans to grant stock options or free shares of the Company, worth at least the equivalent of one year's net salary.

A. GROUP OPERATIONS 2011/2012 – CONSOLIDATED FINANCIAL STATEMENTS

In accordance with legal provisions, the financial statements of companies under direct or indirect control of Faiveley Transport were consolidated at 31 March 2012 with those of the parent company. The principles and conditions of this consolidation for the financial year 2011/2012, the related consolidation scope and the restatements undertaken in accordance with the accounting techniques of consolidation are presented in the notes to the consolidated financial statements.

A.1. Consolidation methods

The year ended 31 March 2012 and had a normal duration of 12 months.

A.2. Change in Group structure

- Acquisition of subsidiaries:
  In the fourth quarter of 2011/2012, Faiveley Transport announced the acquisition of 100% of the share capital of American company Graham-White Manufacturing Co., and its subsidiaries. Graham-White Manufacturing Co. employs more than 300 people and operates six facilities across the United States, with a central manufacturing site located in Salem, Virginia. Graham-White Manufacturing Co. generates annual sales of over USD 70 million and specialises in the design and manufacture of compressed air drying technology for railway braking systems. The company is a leading provider of brake components in the US locomotive and rail freight markets.

  With this acquisition, Faiveley Transport has strengthened its position in the US market, which opens up significant new opportunities thanks to an enlarged product range and complementary customer bases.

  The cost of this acquisition was USD 118.5 million, including USD 14.6 million (i.e. €11.1 million) as newly-issued Faiveley Transport shares.

- On 1 April 2011, two Group entities changed their functional currency. Faiveley Transport Malmö now holds its accounts in Euro and Faiveley Transport Canada in US Dollars.

A.3. Subsidiary operations

- **Annual sales**

By region of delivery	2011/2012	2010/2011
Europe	544,978	557,966
Americas	106,263	79,141
Asia-Pacific	243,043	268,907
Rest of World	6,239	7,858
TOTAL GROUP	900,523	913,872

For the financial year 2011/2012 as a whole, Group sales were €900.5 million, down 1.5% compared to the previous year, comprising a 2.3% decline on a like-for-like basis. Foreign exchange had a negative effect of 0.6% over the full year, while acquisitions made a positive contribution of 1.5%.

By geographic region and on a like-for-like basis, this change in sales reflects diverse developments:

- Sales declined moderately in Europe (down 3% on a like-for-like basis).
  Strong growth in Italy and Eastern European countries offset the significant decline in deliveries to Spain, as this country remained the most severely affected by the economic crisis within the railway industry. France, still the Group's leading market (17% of total sales), recorded a slight decline in sales due to the delivery of major projects in the previous financial year.

- Sales in the Asia-Pacific region retreated by 9% compared to the previous year, with a substantial decline in deliveries to China and India, which was offset by other countries in the region, particularly Russia and the Middle East.
  As previously announced, the events that took place at the Ministry of Railways in China during the year had an adverse effect on business activity, with an overall decline of 24% in sales. In India, the decline in sales was due to unfavourable comparables, following deliveries for the Delhi metro in 2010/2011.

- Sales in America posted strong organic growth of 27%. This significant increase was primarily due to the success of the joint venture with Amsted Rail and the recovery of the US freight market.

The Services business accounted for 36% of Group sales, due to organic growth of 6% during the financial year, reflecting the strong resilience of its markets and the success of the strategy of expanding the range of services.

• **Sales by activity**

	2011/2012	2010/2011
Energy & Comfort	19%	18%
Brakes & Safety	26%	27%
Access & Information	19%	22%
Services	36%	33%

The relative weight of each Group activity was similar to that of the previous year. The relative share of the Services activity increased, due to organic sales growth of 6% over the year. This activity continues to grow steadily due to the expansion of its range of services and the growth in the installed base of Group products.

A.4. IFRS consolidated financial statements of Faiveley Transport

4.1. PUBLISHED FINANCIAL STATEMENTS

• **Income statement**

	2011/2012	2010/2011
Sales	**900,523**	**913,872**
EBITDA* *as % of sales*	108,219 *12.0%*	142,169 *15.6%*
Profit from recurring operations *as % of sales*	**94,689** *10.5%*	**129,782** *14.2%*
Operating profit *as % of sales*	93,272 *10.4%*	126,666 *13.9%*
Net finance cost	(15,185)	(13,425)
Income tax	(26,912)	(32,096)
Net profit from continuing operations *as % of sales*	**51,175** *5.7%*	**81,145** *8.9%*
Net profit	**51,175**	**81,145**
Minority interests	(3,747)	(5,462)
GROUP SHARE OF NET PROFIT *AS % OF SALES*	**47,428** *5.3%*	**75,683** *8.3%*
Number of shares	14,012,090	13,941,934
Net earnings per share	**3.38**	**5.43**

* Operating profit + amortisation and depreciation.

– Operating profit

Profit from recurring operations totalled €94.7 million, or 10.5% of sales.

After deducting restructuring costs and adding net proceeds from the disposal of non-current assets, operating profit was €93.3 million, or 10.4% of sales, a decline of 3.5 points of operating margin.

This decrease was primarily due to project execution issues in China in the platform doors unit, and, to a lesser extent, to the decline in business activity in the Chinese and Spanish markets.

The difficulties encountered on platform door projects managed in China have led to significant margin revisions on these contracts. In order to rapidly rectify this situation, the Group has taken drastic reorganisation and restructuring measures.

The various items making up operating profit may be analysed as follows:

	2011/2012	2010/2011
Sales	900,523	913,872
Gross profit	233,801	261,468
Administrative costs	(66,607)	(65,564)
Sales and marketing costs	(52,010)	(50,236)
R&D costs	(11,111)	(11,638)
Other operating income and expenses from recurring operations	(9,384)	(4,248)
Profit from recurring operations	**94,689**	**129,782**
Non-recurring operating income and expenses	(1,417)	(3,116)
OPERATING PROFIT	**93,272**	**126,666**

- Gross profit

The Group's gross profit amounted to €233.8 million for the year to 31 March 2012 (26.0% of sales), compared to €261.5 million (28.6% of sales) for the year to 31 March 2011.

The 2.6 percentage point decline in gross margin during the year was primarily due to revised margins for the platform door activity in China, as specified above. Excluding this major impact, The Group's margins declined slightly due to an unfavourable project and product mix.

- Administrative costs

Administrative costs amounted to €66.6 million during 2011/2012 compared to €65.6 million during the previous financial year, an increase of 1.6% over the financial year. On a constant group structure basis (excluding the acquisition of Graham-White Manufacturing Co.), these costs only increased by 0.6%, due to the proactive cost-cutting policy implemented by the Group. These costs represented 7.4% of sales, compared to 7.2% for the year to 31 March 2011.

- Sales and marketing costs

Sales and marketing costs were €52 million during 2011/2012 compared to €50.2 million during the previous financial year, which was an increase of 3.5% over the period. These costs represented 5.8% of sales for the year to 31 March 2012 compared to 5.5% for the year to 31 March 2011.

This moderate increase (up 2.5% on constant group structure, excluding the acquisition of Graham-White Manufacturing Co.) was due to the continued strengthening of the Group's presence in strategic growth regions (Germany, Russia, China and the US), as well as significant tendering activity during the financial year.

- Research and development costs

Research and Development costs are taken to the balance sheet if they meet the capitalisation criteria set by IAS 38. If not, they are recognised as expenses.

The Group's research and development costs that were recognised as expenses represented €11.1 million during the 2011/2012 financial year (1.2% of sales), compared to €11.6 million (1.3% of sales) for the year to 31 March 2011.

- Other operating income and expenses

Other operating income and expenses correspond to a net expense of €9.4 million during the period, compared to a net expense of €4.2 million for the year to 31 March 2011.

The increase in this item during the financial year was primarily due to higher provisions unrelated to contracts, the reclassification of the profit-sharing charge to this category and the decline in other operating income.

- Profit from recurring operations

As a result, profit from recurring operations decreased by 27% to €94.7 million, i.e. 10.5% of sales, compared to €129.8 million for the year to March 2011, i.e. 14.2% of sales.

- Non-recurring operating income and expenses

The majority of non-recurring operating expenses was due to restructuring costs and gains and losses from the disposal of property, plant and equipment and intangible assets.

Restructuring costs amounted to €1.2 million during the period compared to €2.6 million for the previous year. During the 2011/2012, these restructuring costs primarily related to the reorganisation of Faiveley Transport Italia.

The loss on disposal of non-current assets was €0.2 million, compared to €0.5 million for the year to 31 March 2011.

– Consolidated net profit

The consolidated net profit was €51.2 million, compared to €81.1 million in the previous financial year, a decline of 36.9%.

Net profit was influenced by the following items:

- Net finance cost

The net finance cost amounted to €15.2 million for the year to 31 March 2012, compared to €13.4 million for the year to 31 March 2011. This charge is analysed as follows:

- the net cost of financial debt for the year, i.e. €(10.7) million, compared to €(10.8) million in the previous year;
- a slightly unfavourable realised net exchange loss, offset by exchange gains, for €(0.3) million;
- the increase in value of derivatives, decreased by unrealised exchange losses, resulting in a net impact of €(1.7) million;
- other financial income and expense items, mainly comprising bank guarantees, interest on pension commitments, the effect of the reversal of discounting the value of put options held by minority shareholders and other financial income and expenses, resulting in a net impact of €(2.5) million.

- Income tax

The income tax charge declined over the period and was €26.9 million, compared to €32.1 million for the year to 31 March 2011. This was due to the decrease in profit before tax from €113.2 million for the year to 31 March 2011 to €78 million for the year to 31 March 2012. As a percentage, the tax rate was 34.4% for the year, compared to 28.3% in the previous year.

This increase may be analysed as follows:

- The losses recorded by the platform door subsidiaries in China, FTMT Shanghai and Faiveley Transport Far East, which benefit from a low tax rate.
- The recognition of minimal deferred tax assets for these two subsidiaries, calculated based on tax losses carried forward.
- For French subsidiaries, the exceptional 5% contribution of income tax and the relative significance of the CVAE charge, which has been recognised as income tax since the 2010/2011 financial year, with similar amounts in both years (approximately €2 million).
- The impact of tax audits completed during the period, both in France and Germany.

The income tax rate paid was 38.1%, compared with 27.5% for the year to 31 March 2011.

- Net profit from discontinued operations

Nil.

- Minority interests

Minority interests comprise shares held by minority shareholders in Shanghai Faiveley Railway Technology (51%-owned), Faiveley Transport Schweiz AG (80%-owned), Nowe GmbH (75%-owned) and Amsted Rail-Faiveley LLC (67.5%-owned). Profits attributable to minority interests decreased during the period due to the decline in earnings reported by Nowe and Shanghai Faiveley Railway Technology.

– Group share of net profit

Taking the above-mentioned items into account, the Group's consolidated net profit for the year was €47.4 million, compared to €75.7 million the previous year.

Net earnings per share was €3.38 compared to €5.43 for the year to 31 March 2011, a decline of 37.7%. Net earnings per share is calculated after deducting treasury shares held by Faiveley Transport at the end of the financial year, i.e. 427,528 shares at 31 March 2012 and 462,777 shares at 31 March 2011.

• Summarised balance sheet

	2011/2012	2010/2011
Goodwill	648,981	562,028
Net non-current assets	114,752	113,381
Deferred tax assets	43,598	29,848
Current assets	457,151	433,546
Cash and cash equivalents	210,247	198,382
TOTAL ASSETS	**1,474,729**	**1,337,185**
Equity	505,145	453,275
Provisions	116,566	107,667
Deferred tax liabilities	22,090	17,508
Financial debt	448,285	393,752
Current liabilities	382,643	364,983
TOTAL EQUITY AND LIABILITIES	**1,474,729**	**1,337,185**

– Goodwill

Goodwill increased by €87 million, from €562 million at 31 March 2011 to €649 million at 31 March 2012.

This growth was primarily due to:
- the recognition of a USD 98 million (€73 million) increase in the acquisition goodwill following the acquisition of Graham-White Manufacturing Co.;
- the restatement of the acquisition goodwill of Faiveley Transport Gennevilliers for €12.4 million;
- the adjustment of Amstel Rail-Faiveley LLC's acquisition goodwill during the allocation period, for €(0.4) million, being USD (0.5) million;
- the translation adjustment of the Ellcon National and Amsted Rail-Faiveley LLC goodwill (assessed in USD) for €2 million.

– Net non-current assets

Net non-current assets increased from €113.4 million at 31 March 2011 to €114.8 million at 31 March 2012, an increase of €1.4 million.

The constituents of non-current assets are detailed in the Notes E2, E3 and E4, respectively, to the consolidated financial statements.

– Working capital requirements (WCR)

At 31 March 2012, the net WCR[1] was €65.2 million, an increase of €9.2 million compared to 31 March 2011. This change was primarily due to an increase in projects work-in-progress (up €25.1 million) following the launch of the engineering phase of numerous projects, partly offset by an increase in customer advances (€11.7 million), which are intended to finance this initial phase for major projects.

– Cash and cash equivalents

Analysis of cash and cash equivalents at 31 March 2012 (€ thousands):

Short-term investments	41,080
Factoring	50,205
Banks (available cash)	118,817
Cash	144
TOTAL CASH AND CASH EQUIVALENTS	**210,246**

At 31 March 2012, the amount of factoring was €50.2 million, compared to €45.7 million at 31 March 2011. No funds were drawn down from the factoring facility at 31 March 2012. The Group completed the deconsolidation process by factoring receivables on one-off bases for a total of €40.2 million, compared to €50.2 million at 31 March 2011.

– Equity

Equity amounted to €505.1 million at 31 March 2012, compared to €453.3 million at 31 March 2011, an increase of €51.8 million.

This movement is primarily due to the impact of:
- the net profit for the year: €51.2 million;
- the capital increase following the part payment in shares of former Graham-White Manufacturing Co. shareholders: €11.1 million;
- the payment of a cash dividend to shareholders of the parent company and other minority shareholders: €(18.1) million;
- the exercise of stock options during the year: €(1.3) million;
- the movement in translation differences: €5.4 million;
- the movement in minority interests, for €0.9 million, following the appraisal of the put option held by minority interests in Nowe GmbH and Faiveley Transport Schweiz AG.

– Provisions

At 31 March 2012, provisions totalled €116.6 million, compared to €107.7 million at 31 March 2011, a net increase of €8.9 million.

The various items comprising this movement may be analysed as follows:
- €4.8 million increase in provisions for completed contracts;
- €0.1 million decrease in provisions for pension commitments;
- €0.3 million decrease in provisions for restructuring;
- €4.5 million increase in other provisions for risks and charges.

– Net financial debt

Net financial debt, as defined in Note E.13.4 to the consolidated financial statements, increased by €43.6 million, from €169.8 million at 31 March 2011 to €213.4 million at 31 March 2012.

This change was due to:
- a €55.6 million increase in borrowings;
- an €11.9 million increase in cash and cash equivalents;
- a €0.2 million increase on financial receivables.

From an economic point of view, this increase in net financial debt during the year was due to additional borrowings related to the acquisition of Graham-White Manufacturing Co. Excluding this acquisition, financial debt would have decreased by €34 million during the year, thanks to cash generated by operations.

As a result, the Group's financial structure changed during the year:
- the net debt to EBITDA ratio underlying the level of bank margin reached 1.77 at 31 March 2012 compared to 1.15 at 31 March 2011;
- the net debt to equity ratio (gearing ratio) was 42.2% at 31 March 2012, compared to 37.5 % at 31 March 2011.

From a financial point of view, Group equity includes treasury shares, which are held for transfer as part of the share purchase or subscription option plans. The exercise of share options (207,035 at the end of March 2012) would result in an improvement of Group cash and cash equivalents by €9.9 million. The value of treasury shares not allocated amounted to €7.5 million at 31 March 2012 share price (including treasury shares held as part of the liquidity contract).

(1) Calculated based on net balance sheet values, on a current basis and after deducting losses on completion up to the value of projects in progress. The WCR used in the cash flow statement presented in the consolidated financial statements has been calculated excluding changes in group structure, movements in foreign exchange and without deducting provisions for losses on completion deducted from the asset.

• **Cash flow statement**

	2011/2012	2010/2011
Net profit	**51,175**	**81,145**
+ Movements in amortisation, depreciation and provision charges and others	18,165	16,616
Self-financing capacity	**69,340**	**97,761**
+ Changes in WCR	(4,030)	(4,106)
Net cash from operating activities	**65,310**	**93,655**
Purchase of PPE and intangible assets	(16,920)	(17,749)
Movement in other financial assets	204	(1,184)
Net cash from (used in) acquisitions/ sales of subsidiaries and minority interests	(77,608)	(5,001)
Net cash used in investing activities	**(94,324)**	**(23,934)**
Proceeds from issue of share capital	–	–
Sale (purchase) of treasury shares	932	(14,235)
Change in share premium	–	–
Other equity movements	(104)	5,527
Cash dividends paid	(18,094)	(17,024)
Movement in borrowings	57,707	(53,879)
Net cash from (used in) financing activities	**40,441**	**(79,611)**
Net foreign exchange difference	1,169	13,358
Impact of increase/(decrease) in value of cash equivalents	1,516	(2,483)
Cash and cash equivalents at start of period	**192,711**	**191,726**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**206,823**	**192,711**

– **Self-financing capacity**

At 31 March 2012, self-financing capacity was €69.3 million, a significant decline of 29% compared to the year-end at 31 March 2011 (€97.7 million).

This change was due to the decline in 2011/2012 net profit, i.e. €51.2 million, compared to €81.1 million in the previous year, offset by a slight €1.5 million reduction in provisions for operating assets, liabilities and charges and deferred tax. Amortisation and provision charges were similar in both years.

– **Net cash from operating activities**

Excluding the change in provisions on operating assets and the impact of IAS 32/39, WCR increased by €4 million. This primarily resulted from a significant increase in projects work-in-progress, linked to the capitalisation of engineering and project management costs in the initial stages of major projects awarded to the Group over the last two years. This effect was partly offset by an improvement in other operating items of WCR.

– **Net cash used in investing activities**

Investments in property, plant and equipment and intangible assets decreased moderately by €0.8 million during the year. Financial investments also decreased by €1.3 million over the 2011/2012 period.

In addition to these investments, Faiveley Transport Group acquired the American company Graham-White Manufacturing Co., on 3 February 2012 for €77.6 million paid in cash.

– **Net cash from (used in) financing activities**

The Faiveley Transport Group distributed cash dividends of €18.1 million, compared to €17 million in the previous year. In addition, stock options valued at €0.9 million were exercised during the year.

The change in borrowings was primarily due to higher drawdowns on credit facilities to finance the acquisition of Graham-White Manufacturing Co. and the repayment of the debt taken out in December 2008, for €43 million.

4.2. RESEARCH AND DEVELOPMENT

The majority of the research and development conducted within the Group falls within the engineering included in contracts and is therefore primarily sold to customers, with Faiveley Transport retaining the intellectual property rights.

In application of IFRS standards, €2.9 million in development costs was capitalised at 31 March 2012, compared to €3.1 million at 31 March 2011. The amortisation charge was €1.9 million for the year to 31 March 2012, compared to €2 million for the year to 31 March 2011.

At 31 March 2012, the total development costs recognised in balance sheet assets were €9.5 million, compared to €8.6 million at 31 March 2011. Development costs are amortised over 3 years.

Public operating grants are recognised in the income statement of the parent company financial statements under "operating subsidies". Under IFRS, if certain costs incurred can be capitalised pursuant to IAS 38, operating subsidies are offset against the "investment grant" item of equity in accordance with IAS 20.

Subsequently, the "investment grant" item is taken to the income statement, also over a period of three years, in line with the amortisation charge applied to development costs previously capitalised.

4.3. BUSINESS DEVELOPMENTS SINCE YEAR-END

4.3.1. Significant events after the year-end

Faiveley Transport announced the finalisation of a USD 75 million bond issue through a private placement on 12 April 2012 (see § 4.4.2).

4.3.2. 2012/2013 Outlook

– **Order book at 31 March 2012**

Thanks to an exceptional year in terms of order taking, the Group posted a record order book of €1,690 million at 31 March 2012, reflecting an increase of 16.3% compared to the end of March 2011, the sixth consecutive year of growth in excess of 10%.

– Enterprise Resource Planning System (ERP)

The basic configuration has been implemented at three pilot sites (Leipzig, Plzen and Gennevilliers). Following a stabilisation phase, a standardised version will be deployed throughout the Group, starting in 2013.

– Outlook

The Group expects renewed organic growth and improved profitability for the 2012/2013 financial year, with the following sales outlook by region:

- In Europe, sales should remain stable overall, with a further year of transition before the start in 2013/2014 of deliveries on some of the major contracts awarded to the Group over the past few years.

- In Asia-Pacific, a recovery in Chinese orders should materialise in 2012 for locomotives and high-speed trains, with the usual leadtime between orders and deliveries, while Russia should experience a further year of strong growth.

- In North America, the railway freight and locomotive markets remained buoyant. Thanks to the acquisition of Graham-White Manufacturing Co., Faiveley Transport will also strengthen its presence with locomotive manufacturers and freight operators.

4.4. CASH AND CAPITAL

4.4.1. Share capital of Faiveley Transport

See chapter C. Information on the share capital.

4.4.2. Financing conditions

a) Long-term loans

- Bank financing

The Group amended the agreement governing the syndicated credit established in December 2008 to extend loan maturity by 2.5 years, i.e. until 23 June 2016 instead of 23 December 2013.

At 31 March 2012, in accordance with the loan maturity schedule, €299.9 million and USD 35.7 million remained outstanding. The €49 million revolving facility, also taken out in 2008, was fully drawn down at 31 March 2012.

Two new revolving facilities were negotiated during the year:
- a €20 million bullet loan, repayable on 18 November 2016;
- a €15 million loan, repayable in annual instalments between 23 December 2012 and 23 June 2016.

The Group also negotiated a €30 million bridge loan to finance the acquisition of Graham-White Manufacturing Co. This loan was repaid on 13 April 2012 after the bond issue was finalised.

- Non-bank financing

To partly refinance the acquisition of US company Graham-White Manufacturing Co. and diversify its financing sources, during the second half of the year the Group launched its first private placement bond issue in the US with two institutional investors, for a total of USD 75 million, made up of two tranches:
- USD 30 million with a 10-year final maturity, redeemable between 2017 and 2022;
- USD 45 million of bullet loan with a 10-year maturity.

The average fixed rate is 4.91% per year.

At 31 March 2012, two conditions precedent needed to be lifted to finalise the transaction:
- the authorisation to issue bonds, granted to the Management Board by the General Meeting;
- the US institutional investors requested compliance with an additional financial ratio, i.e. "Consolidated EBITDA/Consolidated Net Cost of Financial Debt". Due to the Group's commitments listed in the various loan agreements, this new financial condition was offered to the Group's main lenders.

Both conditions were lifted on 12 April 2012 and the financing was finalised. The funds raised were used to repay a portion of credit facilities drawn down.

- Financial conditions

Under the credit agreements, the Faiveley Transport Group must comply with a number of financial conditions, including the following three major conditions:
- leverage ratio, which refers to Consolidated Net Debt/Consolidated EBITDA over a 12-month moving average to the end of each half-year accounting period, must not exceed 2.5. At 31 March 2012, the ratio was 1.77;
- gearing ratio, which refers to Consolidated Net Debt/Consolidated Equity, must not exceed 1.5 at the end of each half-year accounting period. At 31 March 2012, the ratio was 0.41;
- the "Consolidated EBITDA/ Net Cost of Consolidated Financial Debt" ratio, which must not fall below 3.5 at the end of each half-year accounting period. At 31 March 2012, this ratio was 11.4.

b) Analysis of Faiveley Transport Group net debt

At 31 March 2011, Group debt was €169.8 million, comprising financial debt taken out from banks totalling €377.9 million, offset by financial receivables of €9.7 million and cash and cash equivalents of €198.4 million (including short-term investments of €44.9 million and cash of €153.5 million).

At 31 March 2012, Group debt was €213.4 million, comprising financial debt taken out from banks totalling €433.5 million, offset by financial receivables of €9.9 million and cash and cash equivalents of €210.2 million (including short-term investments of €41 million and cash of €169.2 million).

Cash of €169.2 million included €50.2 million of uncalled factoring and €119 million of available cash. Following the financial crisis and its impact on the credit market, the Group decided to maintain some financial flexibility to ensure internal organic growth and/or finance acquisitions.

It should be noted that Faiveley Transport holds 427,528 treasury shares that are designated, in their majority, to be purchased by managers within the share purchase or subscription option plan or to

be allocated to managers who benefit from the performance-based stock option plan. These shares are currently deducted from equity. The exercise of these stock options (207,035 at the end of March 2012) would result in a cash inflow for the Group of €9.9 million. Unallocated treasury shares were valued at €7.5 million at the stock market price of 31 March 2012 (including treasury shares held as part of the liquidity contract).

4.4.3. Restrictions on the use of capital

The debt documentation includes limitations in terms of:
- lease finance;
- disposal of receivables;
- various financing;
- overdraft pursuant to a cash pooling agreement;
- vendor financing;
- bank guarantees on long-term contracts.

4.4.4. Financing of operations and expected sources

Cash flow generation and available finance currently cover the Group's recurring industrial investment requirements.

The recent financing transactions ensure the availability of medium-term resources.

Euro-denominated amortisable repayments are funded by cash flow generated outside the US, and the US Dollar repayments by cash flow generated by the American subsidiaries, with the bullet portion (due in June 2016) to be refinanced in due time.

The conditions for the early repayment of Group debt notably include the loss of the majority control of voting rights by the Faiveley Family and failure to comply with financial ratios.

A.5. Risk factors

5.1. MARKET RISKS

As part of its business, the Faiveley Transport Group is exposed to various types of market risks, in particular foreign exchange, interest rate, raw material, credit and liquidity risks. A description of these risks is provided below and additional information is disclosed in Note E.14 to the consolidated financial statements.

The Group's management of foreign exchange, interest rate and raw material risks seeks to minimise the potentially unfavourable effect of the financial markets on the Group's operating performance.

The Group uses derivative financial instruments to cover its exposure to fluctuations in foreign currency exchange rates. As part of its hedging policy, the Group may use currency swaps, hedges, exchange rate options and structured products.

The Group covers its exposure to interest rate risk by the use of swaps and options.

The Group hedges its raw material exposure through raw material swap contracts.

The Group does not use derivatives for speculative purposes.

• Exchange risk

The main currencies concerned are the Chinese Yuan, US Dollar, Pound Sterling, Czech Koruna and Swedish Krona.

The management of the exchange risk of commercial contracts, where permitted by regulatory requirements, is centralised by the Group Treasury Department and comprises two parts: the certain and the uncertain risk.

- Exchange risk management relating to tenders in foreign currencies (uncertain risk):
  The Faiveley Transport Group is required to submit tenders denominated in foreign currencies. The Group's hedging policy is not to put into place hedge instruments during the offer phase, unless when specifically decided by Management. The aim is to manage the exchange risk through normal commercially available means. If necessary, the Group Treasury Department uses mainly exchange options.

- Exchange risk management relating to commercial contracts (certain risk):
  Commercial contracts in foreign currencies (most often successful tenders) are hedged by the Group Treasury Department from contractual commitment. Instruments used mainly include forward purchases and sales and exchange swaps. Group Treasury may also use options.

Information concerning derivative financial instruments currently in place to hedge the exposure to exchange risks for future purchases and sales is disclosed in the notes to the consolidated financial statements (Note E.14 – Financial instruments and financial risk management).

The Group's policy is to systematically hedge against currencies, except for certain very long-term contracts and certain currencies, which are faced with the technical limitations of hedging or prohibitive cost.

At 31 March 2012, the Group's exposure resulting from all its commercial contracts was as follows:

Amounts in thousands of currency	Trade receivables (a)	Trade payables (b)	Commitments (c)	Net unhedged position (d) = a-b+/-c	Hedging instruments (e)	Net hedged position (f) = d-e
AUD	–	(242)	(1,621)	(1,863)	(1,980)	117
CHF	200	(136)	178	242	240	2
CNY	8,137	(2,581)	38,050	43,607	44,300	(693)
CZK	–	–	(768,327)	(768,327)	(768,385)	59
GBP	1,706	–	19,633	21,339	14,200	7,139*
HKD	(6,663)	–	(141,721)	(148,384)	(148,345)	(39)
INR	–	–	(206,204)	(206,204)	(205,000)	(1,204)
JPY	–	–	1,773	1,773	–	1,773
PLN	–	–	3,459	3,459	3,400	59
SEK	(17,370)	409	(116,244)	(133,205)	(134,452)	1,247
SGD	1,768	–	26,588	28,356	28,400	(44)
USD	(454)	3,623	18,580	21,749	22,094	(345)

*The £7.1 million amount relates to the SSL project, for which £21.4 million remains outstanding.

Recurring commercial exposure, excluding the subsidiaries' projects are hedged by the Group's Treasury based on an annual budget process or through forward purchase or sale contracts.

Intra-group financing contracts are hedged by Treasury, through exchange swap contracts.

Impacts on the income statement due to variations in the Euro (+/-10%) against major foreign currencies and on items not hedged against and recorded at 31 March 2012 are presented in the notes to the consolidated financial statements (Note E.14.4).

• Interest rate risk

The interest rate risk to which the Group is exposed is mainly due to long-term loans amounting to €433.5 million at 31 March 2012 (see details in the notes to the consolidated financial statements, Note E.13), of which €326.7 million related to the syndicated debt, excluding the €49 million revolving facility, fully drawn down at 31 March 2012.

Syndicated debt, excluding the revolving facility, is indexed on variable Euribor and US Libor interest rates. The credit agreement commits the Group to hedge against at least 60% of the principal amount due until December 2012.

To manage its risk, the Treasury Department has implemented a hedging strategy using interest rate swaps, tunnels, caps and options.

The exposure to Euro interest rates is covered for between 66% and 85% of the total debt drawn down based on interest rate fluctuations for the 2012/2013 period. The exposure to US Dollar interest rates is 94% hedged.

The estimated cost of bank debt in 2012/2013 is 2.13%, including hedges and spreads for the debt in Euros, and 3.19% for the debt in US Dollars.

At 31 March 2012, outstanding Euro-denominated syndicated debt was €300 million, with corresponding interest rate hedges for €262.5 million of this. The amount of the US Dollar syndicated debt was USD 36 million, the total nominal value of which is hedged in the amount of USD 35 million.

Net exposure and the sensitivity analysis are described in the notes to the consolidated financial statements (Note E.14.4.b Interest rate risk).

• Raw material risk

The Faiveley Transport Group is exposed to increases in the cost of raw materials such as steel, cast iron, copper, aluminium and rubber, as well as to increases in transportation costs.

The Group has already anticipated these effects, both in the preparation of its tenders and in terms of its purchasing policy:
- Certain contracts relating to projects include price indexation mechanisms that enable the Group to absorb a large part of the increases in raw material costs.
- The vulnerability of raw material purchases is taken into account when developing the purchasing budgets. These price changes are subject to a rigorous control throughout the year by purchasing teams to limit their impact.

However, Faiveley Transport Group's sintered brake activity is exposed to fluctuations in the price of copper.

This information is disclosed in the notes to the consolidated financial statements (Note E.14.4.c).

• Credit risk

The Group enters into commercial relationships with third parties whose financial position is known to be healthy. The Group's policy is to verify the financial health of those customers wishing to obtain credit.

In the case of derivative instruments and cash transactions, counterparties are limited to financial institutions that currently finance the Group.

The Group also practices debt factoring and the sale of receivables. Details of this are provided in the notes to the consolidated financial statements (Notes E.8 Current receivables and E.14.5 Credit risk).

• Liquidity risk

The Company carried out a specific review of its liquidity risk and considers that it is in a position to meet its maturities.

The Group's Finance Department monitors all of the Group's liquidity in order to honour its financial commitments by maintaining a level of cash, cash equivalents and sufficient financing facilities.

Within this framework, during the first half of the year the Group amended the agreement governing the syndicated credit established in December 2008 to extend loan maturity by 2.5 years, i.e. until 23 June 2016 instead of 23 December 2013. At 31 March 2012, in line with the maturity schedule of the agreement, the outstanding balance was €299.9 million and USD 35.7 million. The €49 million revolving facility also contracted in 2008 was fully drawn down at 31 March 2012.

During the second half of the year, the Group set up a number of credit facilities totalling €65 million. These fundings, partly supplemented by the revolving facility of €49 million, were used to pre-finance the acquisition of US company Graham-White Manufacturing Co. At the same time, the Group launched a private placement in the US to raise USD 75 million and refinance the acquisition of the American company, while diversifying its sources of funding. At 31 March 2012, two conditions precedent had not been met; both were lifted on 12 April 2012.

This debt is subject to a number of financial ratios. At 31 March 2012, the Group complied with all ratios required. The details of these covenants are commented in the notes to the consolidated financial statements (Note E.13 – Borrowings and financial debt).

Note E.14.6 to the consolidated financial statements provides additional information of the cash and cash equivalents position at 31 March 2012.

The Group had the following cash and cash equivalents at 31 March 2012 (internal source):

	31 March 2012
Available credit lines (a)	56,754
Parent company's cash (b)	27,100
Subsidiaries' cash and cash equivalents (c)	182,129
AVAILABLE CASH AND CASH EQUIVALENTS (1) = (A+B+C)	**265,983**
Financial liabilities due in less than one year (d)	77,174
Available credit lines maturing in less than one year and bank overdrafts (e)	110,196
NET CASH AND CASH EQUIVALENTS AVAILABLE DURING THE NEXT YEAR (1-D-E)	**78,613**

The "table of future cash flows", presented in the consolidated financial statements (Note E.14.6.b) provides a breakdown of future liabilities by maturity.

• Share risk

The Group does not hold a share portfolio but deposits excess cash balances. At 31 March 2012, it had certificates of deposits of €29.3 million, and fixed-term deposits of €11.8 million.

The risk of these instruments is deemed low.

5.2. LEGAL RISKS

This section provides a limited overview of the various forms of legal risks arising from the Group's operations and the execution of its contractual requirements. The Group considers that sufficient provision charges have been recognised to date to cover all risks and litigations.

• Risk of non-conformity

The Faiveley Transport Group may be confronted by the usual risks encountered by all industrialists that produce and sell manufactured products: these are contractual liabilities put forward by another professional (car builder, operator, and maintainer) in the event of non-conformity of products delivered or non-compliance by the seller of contractual commitments in terms of timescale, reliability, life, etc. Guarantees concerning the proper operation of products delivered are granted for longer or shorter periods (between 12 or 36 months on average) according to the demands of the final customer, the type of project and its specific features. The risk related to this contractual guarantee is evaluated upstream and included in the price of the product.

The risk of cancellation for fault is low due to the understanding and technical feasibility study of the project by a specialised and dedicated team within the design office, as well as the selection of dual source suppliers to avoid any sudden interruption in the delivery of components or materials.

In order to limit the risk of non-conformity, the Group also uses the contractual technique that restricts certain types of damages, and even eliminates some of them (loss of profit, damage to image, loss of customer base or sales).

When it occurs, litigation is very frequently settled out of court and under conditions that do not endanger future relationships between the parties.

In addition, the Faiveley Transport Group uses insurers to cover operational civil liability and products adapted to its business and in compliance with customer requirements.

As part of equipment contracts, the Group and its subsidiaries are contractually bound to maintain equipment with a life span of several decades. A specific plan is set up to manage obsolescence of each project, with the assistance of the manufacturer and/or operator. The requirement to keep equipment operational and reliable during this time period imposes on the equipment supplier the need to ensure leading edge technology and to set up a stock of spare parts in order to avoid a sudden break in supply. Strict contractual obligations (duty to alert, end of life orders, selection of a second source, etc.) are imposed on the Group's own suppliers.

At 31 March 2012, a €25.8 million provision for risk of non-compliance of products sold was recognised in the financial statements. These risks were estimated by project managers and engineers.

• Risk of counterfeit

In the area of intellectual property, the Faiveley Transport Group holds a portfolio of patents and brands that provide it with competitive advantages. Every entity with a design office has set up a process to monitor technology to detect all inventions patented by third parties that may thwart its future developments.

Groups within the leading technical project teams have been organised internally to detect every risk related to the counterfeiting of intellectual and/or industrial property rights that may be held at third-party premises.

The Group avoids granting licences to countries where counterfeiting is not easily punished.

Across the selection of specialists in intellectual property, the Group has built a portfolio of patents and brands that is regularly analysed and evaluated. On behalf of the Group, these specialists carry out surveillance of all similar patents and/or brands and take the necessary steps to protect the Group's rights in that area, both in France and abroad.

The technology, as well as the expertise held by the Group, are also automatically protected by terms of secrecy, which is reflected in the signature of confidentiality agreements with both customers and suppliers very early in the pre-contract relationship.

It should be noted here that, as part of an arbitration procedure carried out under the auspices of the Arbitration Court of the International Chamber of Commerce, Faiveley Transport Malmö sought the conviction of Wabtec Corporation for the misappropriation by Wabtec, since 1 January 2006, of intellectual property relating to friction brake cylinders (BFC TBU brakes), as well as two other braking product concepts (PB-PBA actuators) that are unique to Faiveley Transport. On 24 December 2009, the arbitration was notified to the parties: the arbitration award confirmed that Faiveley Transport is still the owner of trade secrets in relation to the manufacture of the products, and that Wabtec had breached the license agreement once it had been cancelled, as well as certain obligations resulting from this agreement. Furthermore, the award confirmed that certain aspects of the reverse engineering process implemented by Wabtec to obtain a product that is utterly different from Faiveley Transport's may be deemed tainted.

Faiveley Transport Malmö was awarded USD 3.9 million in damages plus interest from Wabtec.

Wabtec was also ordered to pay the royalties that Faiveley Transport should have received in respect of products sold by Wabtec on orders resulting from contracts signed before the licence expired and delivered from 2006. In addition, Wabtec was ordered to cease using manufacturing drawings and other documents relating to these products, except for those that enable Wabtec to fulfil orders resulting from contracts signed before the licence agreement was revoked.

The enforcement order of the arbitration award in the US was granted by a New York Court on 10 May 2010.

Following the favourable outcome of the arbitration, on 14 May 2010, Faiveley Transport initiated a new legal action against Wabtec before the courts of New York, through its subsidiaries Ellcon National, Faiveley Transport USA, Faiveley Transport Nordic and Faiveley Transport Amiens, in compensation for damages suffered in the US on the basis of unfair competition and the violation of trade secrets. In a ruling on 13 April 2011, the district court in New York acknowledged that Wabtec was responsible to the corporate plaintiffs for acts of unfair competition, misappropriation of confidential and secret information, which was the property of Faiveley Transport, and unjust enrichment concerning the friction brake cylinders (CFB-TBU) and PB-PBA actuators. On June 28, 2011, a jury in the New York Federal Court rendered a verdict against Wabtec for damages for the amount of USD 18.1 million, plus interest, to Faiveley Transport USA, Faiveley Transport Nordic, Faiveley Transport Amiens and Ellcon National for market losses suffered in North America due to the dishonest conduct of Wabtec Corporation. Wabtec appealed this ruling on 26 August 2011. At the same time, the plaintiffs filed a counter-appeal contesting the judge's decision to reject their request for punitive damages. The proceedings are being held before the New York Court of Appeals. The exchange of findings between the two parties will continue until June 2012, with the Court of Appeals' decision expected by the end of 2012.

In May 2008, the US company Wabtec Corporation issued a writ against Faiveley Transport USA in the Pennsylvania courts for unfair competition on US soil. To date, no figure has been attributed to their claim. This proceeding is in response to the two procedures described above, launched by Faiveley Transport Group. On 23 September 2011, Wabtec waived the benefit of this proceeding after it was announced that the Faiveley Transport Group had obtained a favourable result before the New York Courts.

• Tax risk

The Group has set up the rules required to understand the subject in an international context and uses external consultants, case by case, country by country, to best protect its interests.

Every Group subsidiary is led by a local team that must ensure that their business is conducted in compliance with the local regulations in force.

In 2008, Faiveley Transport was subject to a tax audit. An adjustment proposal was issued on 15 July 2008 by the tax authorities. The corrections considered relate to additional income tax of approximately €190 thousand, which has been settled. These corrections are still subject to proceedings initiated by Faiveley Transport against the tax authorities.

The tax audits of the companies Faiveley Transport, Ellcon National and Faiveley Transport USA have been completed. Tax adjustments were only minor. The new tax audit instituted on Faiveley Transport Leipzig will continue into the 2012/2013 financial year.

• Other risks

- **Anti-competition risks:** the Group's business sector is not significantly exposed to this type of risk. In fact, the modest number of players as well as the system for public tenders is not open to this kind of illegal behaviour.
- **Corruption risks:** certain contractual requirements have been specifically considered and prepared to protect the Group against any abuse in this area. An Ethics Charter was introduced during the year and the Purchasing Department has formalised a Code of Conduct for its teams to protect itself against any abuse in this area.

5.3. INDUSTRIAL AND ENVIRONMENTAL RISK

In this area, the Group has identified accurately and thoroughly the various classes of risks it may confront due to the nature of its business.

These classes are the following:

• Product risk

Even though the Faiveley Transport Group is positioned in the sector for the production and sale of certain parts described as safety for the railway industry (brakes, doors, etc.) and thus, inherently exposed to contractual or criminal liability in respects of "products", the Group's level of exposure to such risks is considered to be medium by the civil liability insurance agents. The evaluation takes into account the process of product design as well as the type and content of contracts entered into with car builders and the operators.

In French contracts, the legal liability for hidden defects also applies throughout the life of the product even though, between professionals, its application may be expressly excluded by contract.

Liability as a result of product defects may also have an effect in terms of risk, even if the user often only knows the operator, while the chain of contract prevails between the operator, the car builder, the equipment manufacturer and the supplier.

The organisation and management of quality, the selection and monitoring of suppliers and subcontractors, the follow up of complaints and the contractual environment are adapted to the nature and potential scale of the exposures.

The production series are short. Orders for supply of raw materials and components are carried out by project. The most unfavourable case would thus be a design error impacting an entire project. This may represent several thousand parts. The nature of the fault may be rapidly understood due to the expertise of the teams and the possibility of dispatching technicians on site who can recommend the best technical solutions for operators.

As regards suppliers, a selection process is in place that includes, in addition to the criteria of financial stability, an audit of selection by the supplier's quality department and follow up of performance. Every return or rejected component leads to the organisation of a working group dedicated to resolving the problem, to analyse the causes and take a decision as to changes to be made to avoid a recurrence of the same problem.

Design and development are carried out under the guidance of Technical Management as part of a customer project or at the time of in-house R&D developments, initiated by the Group. For each project identified as critical, a formal plan is prepared, split into fundamental tasks, implemented and updated by the project manager and project coordinators. The features taken into account at the start of the project are functional and performance requirements, regulatory and legal requirements where applicable, information from previous similar designs and all other requirements required for design and development. Project reviews are carried out and reports produced. The verification of the designs comprises execution of calculations, the completion of FMEA (Failure Mode Effects Analysis) as well as verification of the plans.

The internal validation of the design is carried out by test laboratories for the prototype stage on the basis of a formalised validation plan. Prototypes are validated by the customer with certification trials and/or types followed by FAI (First Article Inspection).

Every new order for parts is subject to a material check, dimension check, verification of compliance with legal and regulatory requirements and an environmental analysis.

All products are identifiable. The products carry an identification plate showing an identification number and serial number, enabling the date of construction to be found and the trial notes with the name of the related operator. The series number of devices comprising a sub-assembly is identified from these notes. Small parts are traced by production batch.

Additional information, concerning a methodology of evaluating provisions for customer risks, is described in the notes to the consolidated financial statements (§C – Consolidation principles and methods, Note 15.2).

Warranty provisions are calculated based on a specific percentage for each product manufactured and the reliability experienced over time. Percentages vary between 1% and 6% depending on products and are applied to sales achieved, project by project.

At 31 March 2012, the warranty provisions totalled €45.1 million.

The amount provided in respect of the warranty and Customer Services, as well as litigation declared by our customers and penalties payable is disclosed in the notes to the consolidated financial statements (Note E.12.3).

• Health and safety risk

In each of the Group's industrial site, a safety coordinator manages all aspects of site "health, safety and environment" on a daily basis, making the necessary checks in the factory, studying and recording the product received, updating the job files and organising training.

The objective of general management is to integrate safety into the management system for quality and the environment (QHSE approach), an approach heavily promoted and supported by the Group's insurers.

The job files summarising the risks of various activities and specifying the required individual protection equipment are displayed at all work stations. Every accident with work stoppage is subject to a detailed analysis of the circumstances and causes and where necessary, leads to action being taken to prevent any recurrence.

At French sites, a single administrative document has been established and a fire work permit has been instituted for all external companies liable to work using hot spots on the premises.

Taking account of the number of external companies operating on the sites, improvements have been made to the storage of chemicals and paint to avoid risk of fire.

• Continuity of business after a disaster

The French sites now avail of in-house fire wardens, in line with insurers' recommendations. The quantity of flammable material stored in production areas has also been significantly reduced.

Each industrial site has identified potential emergency and accident situations and set up regularly tested emergency plans.

Concerning the risk of production interruption following a fire or flood, it should be noted that the major industrial sites have set up emergency procedures describing the steps to take following a large scale incident that could fully or partly paralyse the operation of the site in question.

Survival plans are being developed at the Group's major sites in order to take the necessary steps and reduce consequences as soon as possible after an incident. A list of companies that can provide repair equipment as well as those specialising in decontamination of electrical devices, has been compiled.

Those in charge of taking the major tasks after an incident have been designated in advance to design the most adequate response. Taking account of the size of these sites as well as, in some cases, the proximity of other Group establishments in the same geographical area, it is necessary to consider specific and rapid solutions to reduce the consequences of a large scale incident.

The majority of production tasks can be easily subcontracted and are for the most part manual. The machines, though expensive, can be acquired relatively rapidly. In addition, the interdependence of sites is limited.

• Dependence on suppliers and/or subcontractors

As part of its business, the major operating entities of the Group may be confronted with a state of dependence on certain suppliers and/or subcontractors for certain commodities, or with certain suppliers and/ or subcontractors being dependent on the Group.

The implementation of best purchasing and purchasing management practices by type of commodity and by supplier enable us to accurately assess these risks of dependence and take the necessary steps.

Increased monitoring, due to the international economic crisis, was put into place in order to pre-empt the failure of any major suppliers.

• Increased cost of raw material and transport risk

This information is detailed in §5.1 and in the notes to the consolidated financial statements (Note E.14.5.c).

• Environmental risk

The industrial sector in which the Group operates is subject to compliance with restrictive and multiple environmental standards. The production processes require the use of chemical products (paint, glue, surface treatment, etc.) that may pose a risk to the environment.

The major French sites are ICPE-classified (classified sites for the protection of the environment) and subject to a declaration system, and even authorisation from the competent regional authorities for some of them.

The administrative authorities may also require steps to be taken to prevent or treat, going as far as ordering the closure of sites, in the event of serious violations of applicable regulations in the area of labour and/or environmental law. The Faiveley Transport Group may also be held liable by third parties under the regulations protecting the environment and the general principle of criminal liability.

The Group is fully aware of the importance of managing compliance with regulations in the area of the environment by dedicating a senior engineer to the aspects of safety - health - environment, who must verify every day whether the site they are responsible for is compliant with the various applicable standards.

Audits carried out by the insurers have disclosed some weaknesses in the manner of understanding this risk. Even though the quantity of pollutants used in the business sector is very small, the Group may be called on to pay rehabilitation costs, fines or damages-interest relative to non-compliance with environmental standards.

The factories of Saint-Pierre-des-Corps and Amiens are both in industrial parks with a SEVESO classified site that stores oil and chemical products. In the event of problems on these sites close to the Group's production units, this could have a negative effect on their production capacity.

The sites of Saint-Pierre-des-Corps (Electromechanical) and La Ville-aux-Dames (Electronics) are situated in the flood plains of the Loire and Cher rivers. According to the risks map and the IGN69 system, the two sites are in an area of medium level risk (water depth of 1 to 2 metres with modest to nil speed or less than 1 metre with medium speed). The two sites at Saint-Pierre-des-Corps are in a Natura 2000 area.

As the constraints of safety, environment and pollution are becoming ever greater, the Group is conscious that it may be obliged to incur expenditure, notably to enhance the procedures for monitoring soil, water and air pollution. However, these investments would not be significant for the Group.

In addition, in order to comply with European Directive n°2004/35, from 31 March 2009 the Group decided to subscribe to additional guarantees in terms of insurance. Environmental damage and soil and water clean-up cover was added to the accidental and gradual environmental damage policies.

The Group is already committed to areas of improvement in the storage of products posing a danger to the environment (retention tank, anti-fire cabinets, management of condensates from compressors, elimination of PCB transformer, etc.) and the reduction in the emission of volatile organic compounds. The use of toxic products for surface treatment such as chromic acid and hydrofluoric acid, requires adequate and regular monitoring (once a quarter), which is carried out by each applicable site.

Below are specific matters facing the Group at present:

- Faiveley Transport Amiens, as the last remaining operator of classified facilities in Sevran, at 4 boulevard Westinghouse, a site occupied by Sab Wabco until 1999 for the production of cylinders for braking systems, was declared to be a polluted site and therefore likely to create pollution or represent an on-going risk for people and the environment, according to an order from the Prefect on 11 April 2005. This order requested that Faiveley Transport Amiens conform to certain procedures to remediate the site. It should be mentioned here that the land concerned was sold on 16 September 2002 by Faiveley Transport Amiens and that the acquirer, in an express condition of the transfer document, agreed to make it his personal business and to take full responsibility for all potential clean-up work deemed necessary under the administrative proceeding launched by the Prefecture of Seine Saint-Denis, regarded as complete as of the notification of the order mentioned above. The acquirer and his successors were regularly informed of and involved in the on-going procedure. The site was again sold under a legal deed signed on 16 December 2009. The new owner committed to carry out the remediation, pollution clean-up and soil improvement of the site, under his own responsibility and at his own expense, in line with current and future guidelines, formal notices and administrative rulings that have been or are liable to be taken against Faiveley Transport Amiens (formerly Sab Wabco) and to handle all complaints, legal actions, claims or proceedings related to the environmental condition of the building, its soil and subsoil. The new owner is a specialist in this type of work.
  On 21 June 2011, the Administrative Court of Montreuil dismissed the Commune of Sevran's claim disputing the implicit decision of the Prefect of Saint-Denis to take no action and to close the investigation related to the request to remediate the site concerned. This decision was not appealed in the two months following the notification of the Administrative Court's judgment. This proceeding was thus closed.

- In 2003, the Brazilian subsidiary of the Sab Wabco Group, not yet acquired by the Faiveley Transport Group, sold land to the company Cyrela. A risk of soil pollution was identified in 2004, subsequent to the purchase of the Sab Wabco Group by Faiveley Transport, as a result of which the latter bore the costs of soil decontamination. Due to this risk of pollution, Cyrela retained a part of the sale price (R$3.7 million, or €1.6 million, remains outstanding).
  The situation is currently as follows: decontamination work continues under the agreed conditions. Site meetings are regularly held with the contractor and local authorities to assess soil quality. On completion of the work that will allow the contaminated soil to achieve a level of quality acceptable to local authorities, Cyrela may request building permits. At the issuance of these permits, the amount withheld may be released and the payment made.
  At 31 March 2012, a provision of R$2.5 million had been recognised in relation to this issue (€1 million).

- On 19 January 2011, Faiveley Transport Amiens received a prefectural order requiring it to proceed with monitoring and diagnostic measures for the water table at its site situated at Zone Industrielle Nord, Rue André Durouchez, 80000 Amiens, France. It must prepare a management plan to carry out groundwater monitoring, to look for sources of soil pollution and proceed with the development of a management plan for pollution found at its site, in accordance with the circular of 8 February. Over the course of the financial year, the Company has taken action which allows it to meet the provisions of this order.

- At the end of March 2012, the company Graham-White Manufacturing Co. incorporated a reserve of USD 4.5 million into its accounts, designed to cover potential environmental risks at its American sites.

5.4. IT RISK

The Group's unwavering concern is to protect its IT infrastructure, data and application software. Centralised applications are hosted with several partners who ensure the physical security of the hardware and software protection access within a "Service Level Acceptance" agreement.

Having developed application software that make communication and mobility increasingly easier, the Group attaches great attention to anti-intrusion systems (firewalls) and information access security profiles.

The Group is committed to a major project, called "Moving Forward", which aims to integrate and standardise the information system of the entire Group.

This project covers:

- infrastructure optimisation;
- unification of the communication policy;
- integration of the industrial operation of the Group via a single ERP (Enterprise Resource Planning).

To secure the rollout of a single ERP, the Group management has set up a project platform at the Group level, and enlisted the help of external consultants. To control these risks, the Group elected to have a pilot phase that will set the Group configuration before gradually rolling it out to all subsidiaries.

Three pilot sites are currently in production (Leipzig, Plzen and Gennevilliers). The feedback analysed enabled the creation of a version 2 of the solution, which will be validated at the end of 2012 and deployed through the whole Group from the start of 2013.

B. PARENT COMPANY FINANCIAL STATEMENTS: FAIVELEY TRANSPORT AT 31 MARCH 2012

B.1. Parent company financial statements (according to French accounting principles)

1.1. INCOME STATEMENT

	2011/2012	2010/2011
Sales	**52,681**	**48,860**
EBITDA * *as % of sales*	(681) *(1.29%)*	(1,180) *(2.4%)*
Profit/(loss) from recurring operations *as % of sales*	(1,599) *(3.03%)*	(1,600) *(3.3%)*
Operating profit/(loss) *as % of sales*	**(1,599)** *(3.03%)*	**(1,600)** *(3.3%)*
Net finance income (expense)	(9,992)	(2,216)
Exceptional income/(expense)	(243)	1,317
Income tax	835	742
NET PROFIT/(LOSS)	**(10,999)**	**(1,757)**

* Operating profit plus amortisation and depreciation.

Faiveley Transport continues to provide services for the Group, as the holding and management company.

The €52.7 million sales achieved in 2011/2012 grew by €3.8 million compared to the previous year (€48.9 million).

A significant portion of Faiveley Transport's costs corresponding to services provided to subsidiaries is rebilled. The operating loss was €1.6 million, unchanged compared to the previous financial year. Fixed costs that are not rebilled to subsidiaries increased; this increase was however offset by growth in royalties for the use of the Faiveley Transport brand.

The net finance expense was €9.9 million, compared to an expense of €2.2 million in the previous year. In 2011/2012, dividends of €1.3 million were collected, compared to €0.4 million in 2010/2011.

Excluding dividends, the net finance expense declined by €8.7 million during the 2011/2012 financial year. This was due, on the one hand, to an increase of €2.2 million in interest expense, which relates to bank borrowings, higher drawdowns on credit facilities, interest on current accounts and bank overdrafts, partly offset by interest on loans to subsidiaries. Faiveley Transport also recorded virtually nil net foreign exchange gains during the year, compared to an income of €4.4 million in the previous year. In addition, a €0.6 million provision for writedown of treasury shares was recognised during the year, whilst the reversal of a €1.5 million provision for foreign exchange risks was recognised in the previous year.

The €0.8 million income tax refund recognised at 31 March 2012 reflects the tax consolidation gain of €3.7 million achieved during the period, reduced by the tax charge generated by the German subsidiaries, Faiveley Transport Holding GmbH & Co KG and Faiveley Transport Leipzig GmbH & Co KG, for €3 million, and increased by a withholding tax credit of €0.1 million.

1.2. BALANCE SHEET

	2011/2012	2010/2011
Net non-current assets	1,057,476	954,847
Current assets	54,288	46,330
Cash and cash equivalents	334,297	286,584
TOTAL ASSETS	**1,446,061**	**1,287,761**
Equity	177,807	194,426
Provisions	1,884	960
Financial debt	1,238,275	1,059,357
Other liabilities	28,095	33,018
TOTAL EQUITY AND LIABILITIES	**1,446,061**	**1,287,761**

Net non-current assets take account of the recognition of a €384.8 million technical deficit, registered on the transfer of Faiveley Transport and Faiveley Management's assets and liabilities to Faiveley S.A., intangible assets of €14.7 million, property, plant and equipment of €1 million, equity investments of €499.9 million and receivables of €157 million attached to these investments.

Equity investments increased by €82 million over the year. This increase was due to the creation of the Chinese subsidiary Faiveley Transport Systems Technology (Beijing) for €2 million, the initial €56 million investment in the share capital of Faiveley Transport Belgium and the increase of Faiveley Transport's €24 million equity investment in Faiveley Transport USA Inc. Furthermore, receivables attached to equity investments increased by €17.2 million, primarily due to an increase in current accounts. Loans to receivables remained stable at €116.8 million.

Current assets increased by €8 million during the year. This was primarily due to the €5 million increase in trade receivables and a €2.5 million increase in receivables related to the tax consolidation.

Cash and cash equivalents grew by €47.7 million during the year. This resulted from a €50.3 million improvement in cash balances and a €3 million decline in marketable securities. At the same time, on the liability side bank overdrafts increased by €58.6 million.

Equity decreased from €194.4 million at 31 March 2011 to €177.8 million at 31 March 2012. This €16.6 million negative movement may be analysed as follows:

- increase in capital: €11.1 million;
- payment of dividends €(16.7) million;
- loss for the year: €(11) million.

Provisions increased by €0.9 million due to provisions established for the share subscription plan of 23 November 2009, for €0.1 million, and the free share allocation plans, for €1.4 million. Provisions for litigations were reduced by €0.6 million, showing a balance of €0.3 million at 31 March 2012.

Financial debt was valued at nominal value and comprised:

- the €326.6 million loan granted by the banking pool, with a view to reorganising the Faiveley Transport's shareholding;
- credit lines for €94 million;

- current bank and cash pooling overdrafts (Group cash management) for €286.7 million;
- the loan subscribed from the Faiveley Transport Malmö subsidiary, for €20.3 million;
- credit current accounts with Group companies, for €510.05 million;
- accrued interest in relation to the above financial debt, for €0.2 million;
- the balance of the special reserve for employee profit sharing for €65 thousand.

Other liabilities also decreased by €5.8 million during the year. This change was primarily due to the decline in tax liabilities of French subsidiaries included in the tax consolidation, for €2.6 million, and liabilities to the German tax authorities, for €1 million, in relation to two of the Group's German subsidiaries.

B.2. Events after 31 March 2012

On 12 April 2012, Faiveley Transport finalised a USD 75 million bond issue through a private placement (see above § A.4.3.1 and § A.4.4.2). This transaction was implemented through its Faiveley Transport USA Inc. subsidiary, in order to acquire Graham-White Manufacturing Co.

B.3. Research and development costs

None in the Faiveley Transport parent company financial statements.

B.4. Change of method during the year

Nil.

B.5. Information on non-tax deductible charges

Non-tax deductible charges at 31 March 2012 amounted to €26,042.

They generated a tax charge of €9,380.

B.6. Information on payment terms

At 31 March 2012, trade payables posted to the balance sheet totalled €12,365 thousand, of which €10,145 thousand related to international intercompany invoices, due in 60 days at month-end, payable on the 5th of the month.

The ageing analysis was as follows:

	30 days	60 days	+ 60 days	Total
Trade payables at 31 March 2012	1,361	931	10,073	12,365
Trade payables at 31 March 2011	561	429	11,309	12,299

B.7. Treasury shares

The Company directly and indirectly holds 2.93% of its share capital.

B.8. Analysis of results and allocation of the 2011/2012 net loss

- **Table of results of Faiveley Transport for the last five years**

Attached to the present report, pursuant to the provisions of Article R. 225-102 of the Commercial Code, is the table of the results of the Company for each of the last five years.

- **Proposed allocation of net loss**

We would ask you to approve the annual financial statements (balance sheet, income statement and notes) as presented to you, showing a net loss of €10,998,977.46.

We would also ask you to approve the following allocation of net loss for the financial year ended 31 March 2012:

• Loss for the year	(€10,998,977.46)
• Increased by:	
Retained earnings	€67,796,499.37
• Distributable profit	€56,797,521.91
– Allocation to legal reserve:	(€20,944.10)
– Dividend payment, i.e. €0.85 per share:	(€12,422,029.20)

The balance of €44,354,548.61 will be allocated in full to "Retained earnings".

The dividend will be payable with effect from 20 September 2012.

Taking account of the allocation, the equity of the Company amounts to €165,384,526.63.

If at the time of the payment, the Company holds treasury shares, the profit distributable corresponding to the unpaid dividend due to the holding of the shares, shall be allocated to the account "Retained earnings".

It should be noted that over the last three financial years, the following sums were paid in dividends: €17,285,653.20 for the financial year 2010/2011, €17,285,653.20 for the financial year 2009/2010 and €14,404,711 for the financial year 2008/2009.

C. INFORMATION ON THE SHARE CAPITAL

C.1. Bylaw conditions governing revisions to the share capital and corporate rights

The share capital is increased, either by the issue of new shares, or by an increase in the nominal value of existing shares.

New shares are fully paid, either in cash, or by offset against current liabilities of the Company, or by incorporation of reserves, profits or share premium, or by transfer in kind, or by conversion of bonds. New shares are issued at their nominal value, or at that amount increased by a share premium.

An Extraordinary General Meeting is the only competent body to decide, based on a report by the Management Board, to increase the share capital. A reduction in share capital is authorised or decided by an Extraordinary General Meeting that may delegate to the Management Board all powers to effect the transaction. A capital increase must be completed within five years from the date of the General Meeting that decided or authorised it.

C.2. Share capital issued and authorised unissued share capital

2.1. SHARE CAPITAL ISSUED

At 31 March 2012, the share capital of the Company was €14,614,152. It comprises 14,614,152 shares of €1 nominal value each, fully paid, all of the same class.

• Revision to the share capital and rights attached to shares

Every revision to the share capital or rights attached to securities that comprise it, is subject to the law; the bylaws do not provide for specific requirements.

• Form and registration of shares

Shares are in nominative or bearer form at the shareholders' discretion. Both these categories are subject to the law that relates to them.

• Existence of thresholds in the bylaws

Apart from the legal requirement to inform the holding company of certain fractions of the share capital, there is no particular requirement in the bylaws.

• Identification of bearer shareholders

Except in instances specified by the law, fully paid up shares are either held in nominative or bearer form, at the shareholders' discretion. Shares are registered in accordance with the terms and conditions provided by law.

The Company is authorised to use, at any time, the legal provisions in respect of identification of holders of securities giving, immediately or in time, the right to vote at Shareholders' Meetings.

• Company share registrar

The Company has delegated its share registrar service to Société Générale Securities Services: 32, rue du Champ de Tir – BP 81236 – 44312 Nantes Cedex.

• Transfer of shares

Company shares may be freely transferred between living persons or upon the death of the holder. Transfers of Company shares involving third parties and the Company are completed by way of an account-to-account transfer order. Shares in the Company that are not fully paid in respect of payments due cannot be transferred.

2.2. AUTHORISED UNISSUED SHARE CAPITAL

• Delegation of authority to increase the share capital

At the Combined General Meeting of 14 September 2011, a resolution (nineteenth resolution) was approved by the shareholders to delegate authority to the Management Board to increase the share capital, with waiver of the pre-emption right, through a private placement to qualified investors or for the benefit or a restricted circle of investors.

This resolution was adopted by a qualified majority.

Pursuant to Articles L. 225-129, L. 225-129-2, L. 225-135 and L. 225-136 of the Commercial Code, the Management Board was authorised to increase the share capital, with waiver of the pre-emption right, with the facility of effecting the transaction in one or more offerings in accordance with section 2 of Article L. 411-2 of the Monetary and Financial Code, and not exceeding 10% of the share capital of the Company on the day of the General Meeting.

This authorisation was given for a period of twenty-six months from 14 September 2011.

On 3 February 2012, the Management Board implemented this delegation, having been granted approval of the planned transactions by the Supervisory Board on 23 November 2011.

As part of the acquisition of US company Graham-White Manufacturing Co., the acquisition contract, concluded on 22 December 2011 and amended on 10 January 2012, provided for the acquisition price of the Graham-White Manufacturing Co. shares to be partly paid to the sellers in new Faiveley Transport shares.

As a result, on 3 February 2012, the Management Board decided to increase the share capital of the Company by a nominal amount of €209,441, thereby increasing it from €14,404,711 to €14,614,152, through the issue of 209,441 new shares in the Company with a par value of €1 each, to be issued at a price of €53.086 per share, being a total subscription price of €11,118,384.93. The issue price corresponds to the weighted average of the share price over the last three trading days preceding the date the subscription price of the capital increase is set, less a discount of 5%.

C.3. Shareholders and voting rights at 31 March 2012

3.1. ANALYSIS OF SHAREHOLDERS AND VOTING RIGHTS

According to the information supplied by Société Générale, amongst which, the register of nominative shareholders and the identification of a certain number of bearer shareholders, the shareholders and the voting rights in the Company at 31 March 2012, were as follows:

Principal shareholders at 31 March 2012	Number of shares	% of capital	Single voting rights	Double voting rights	Total voting rights	% voting rights
Financière Faiveley	6,315,380	43.21%	43,055	6,272,325	12,587,705	56.86%
François Faiveley Participations (F.F.P)	1,159,288	7.93%	354,538	804,750	1,964,038	8.87%
François Faiveley	225	0.00%	–	225	450	0.00%
Thierry Faiveley	214,524	1.47%	214,524	–	214,524	0.97%
Erwan Faiveley	5	0.00%	–	5	10	0.00%
TOTAL FAIVELEY FAMILY	**7,689,422**	**52.62%**	**612,117**	**7,077,305**	**14,766,727**	**66.70%**
Directors and senior executives *	147,191	1.01%	6,314	140,877	288,068	1.30%
Treasury shares	427,528	2.93%	–	–	–	–
Nominative shares**	770,529	5.27%	35,929	734,600	1,505,129	6.80%
General public	5,579,482	38.18%	5,579,482	–	5,579,482	25.20%
TOTAL	**14,614,152**	**100.00%**	**6,233,842**	**7,952,782**	**22,139,406**	**100.00%**

* Excluding Erwan Faiveley and François Faiveley.
** Excluding Faiveley Family, senior executives and treasury shares.

To the knowledge of the Company, no other shareholder held over 5% of the share capital or the voting rights at 31 March 2012.

3.2. ANALYSIS OF THE SHARE CAPITAL OVER THE LAST THREE YEARS

	2011/2012 % of capital	2010/2011 % of capital	2009/2010 % of capital
Nominative shares	58.66	60.15	58.94
General public	41.34	39.85	41.06

3.3. SHARE CAPITAL OF THE COMPANY SUBJECT TO PLEDGES

Name of shareholder as pure nominative form	Beneficiaries	Start date of pledge	Expiry date of pledge	Condition for release of pledge	Number of shares pledged at 31 March 2012	% of capital pledged
Financière Faiveley	Société Générale and Crédit Lyonnais	24/03/2006	31/03/2016	Full repayment of loan granted	70,400	0.49
François Faiveley Participations	Société Générale and Crédit Lyonnais	24/03/2006	30/03/2013	Full repayment of loan granted	4,062	0.028

C.4. Movements in the share capital during the last six years

Date	Transactions	Increase in capital (€)	Cumulative number of shares	Capital (€)
31 March 2006	Nil	Nil	12,529,585	12,529,585
31 March 2007	Nil	Nil	12,529,585	12,529,585
31 March 2008	Nil	Nil	12,529,585	12,529,585
31 March 2009	Issue of new shares	1,875,126	14,404,711	14,404,711
31 March 2010	Nil	Nil	14,404,711	14,404,711
31 March 2011	Nil	Nil	14,404,711	14,404,711
3 February 2012	Issue of new shares	209,441	14,614,152	14,614,152
31 March 2012	Nil	Nil	14,614,152	14,614,152

C.5. Employee interest in the Company's share capital

FCPE Faiveley Shares held 15,360 shares (0.10%) in the Company at 31 March 2012.

C.6. Buyback by the Company of its own shares

At 31 March 2012, the Company held 427,528 of its own shares, representing 2.93% of its share capital. The book value of these shares was €21,375,820.45 and their market value was €17,462,834.60.

The Combined General Meeting of 14 September 2011 was called to approve a new share buyback programme in its seventh resolution. A description of this programme, prepared in accordance with the provisions of Article 241-2 of the AMF general regulations, is presented hereafter, as provided by Article 241-3-III of the same regulations. As a result, it will not be subject to a specific publication.

6.1. OBJECTIVES OF THE SHARE BUYBACK PROGRAMME AUTHORISED BY THE COMBINED GENERAL MEETING OF 14 SEPTEMBER 2011

Shares may be bought back to:
- ensure the liquidity and to support the market for Faiveley Transport shares by an investment services provider via a liquidity contract that conforms to the ethics charter recognised by the Autorité des Marchés Financiers;
- grant them to employees and management of the Group according to the terms and conditions of the law (options to purchase shares, employee profit-sharing, allocation of free shares);
- cancel them by way of reduction in capital within the limits set by law;
- retain them within the limit of 5% of the capital and use them in exchange or payment, notably as part of acquisitions initiated by the Company, by way of public offer or other;
- implement all other market practice that is permitted by the Autorité des Marchés Financiers and more generally all transactions that conform to the regulations in force.

6.2. MAXIMUM PERCENTAGE OF THE SHARE CAPITAL, MAXIMUM NUMBER AND FEATURES OF SHARES THE COMPANY IS PROPOSING TO BUY BACK AND MAXIMUM PURCHASE PRICE

Purchase of shares in the Company may relate to a number of shares such that the number of shares held following these purchases does not exceed 10% of the shares comprising the share capital of the Company, knowing that the percentage will apply to the capital adjusted according to transactions that may occur subsequent to the present Meeting.

The maximum purchase price is set at €90 per share.

The maximum amount allocated to the repurchase programme is €129.6 million.

Taking account of the 427,528 shares already directly or indirectly held by the Company at 31 March 2012, the maximum number of shares that the Company may acquire as part of this share buyback programme would be 1,033,887.

6.3. VALIDITY OF THE SHARE BUYBACK PROGRAMME

This authorisation will remain valid for eighteen months, i.e. until 14 March 2013.

During the year ended 31 March 2012, the Company did not buy back any Faiveley Transport shares, excluding those carried out by an investment service provider through a liquidity contract.

At the Combined General Meeting to be held on 14 September 2012, a draft resolution (ninth resolution) providing for the renewal of this buyback programme for a further period of eighteen months will be submitted to shareholders for approval.

If this resolution is adopted at the next General Meeting, the authorisation granted to the Management Board will supersede that provided at the General Meeting on 14 September 2011.

C.7. Contract to stimulate trading of the Faiveley Transport share

Since 22 September 2009, a liquidity contract has been implemented between the Company and ODDO Corporate Finance, an investment service provider that operates in full independence to stimulate the market.

The Company allocated 10,000 shares and €500,000 to ODDO as part of this contract. At 31 March 2012, ODDO Corporate Finance bought 159,857 shares and sold 154,600 on behalf of the Company.

The average price of the shares bought during the year was €55.89 and €55.36 for shares sold. At 31 March 2012, the Company held 10,181 shares through the market stimulation contract (being 0.07% of its share capital) for a market value of €534,110.94, i.e. a price per share of €52.46.

D. CORPORATE BODIES AND MANAGEMENT

D.1. Corporate governance

1.1. COMPOSITION OF THE MANAGEMENT BOARD

The Management Board comprises between three and seven members, selected or not from among the shareholders and appointed by the Supervisory Board, which confers on one of them the position of Chairman. The members of the Management Board must be individuals.

The Management Board is appointed for a period of three years by the Supervisory Board, which may replace members who die or resign, in accordance with the law.

No individual may be appointed as a member of the Management Board if they do not meet the conditions of qualification required by Directors of public limited companies, if they have been deemed incompatible, in default or subject to a prohibition forbidding them

access to these functions, if they are a statutory auditor to the Company, was or are a parent or related under the conditions set by Article L. 225-224 of the Commercial Code, if they are a member of the Supervisory Board, if they already have two other positions on the Management Boards of other companies or if they chair two other public limited companies.

Every member of the Management Board must be under 65 years old. If this age limit is reached in office, the Director in question is considered to have resigned and a new Director will be appointed as provided by the present article.

Every member of the Management Board may be linked to the Company through an employment contract that remains in force during the term of office and upon its expiry. Members of the Management Board may be reappointed.

In accordance with the bylaws, the Chairman who is granted the power to represent the Company carries the title "Chairman and Chief Executive Officer".

There are no family relationships between members of the Management Board.

Members of the Management Board are as follows:

• Thierry Barel (born 11 February 1961)

On 22 September 2009, Thierry Barel was appointed as a member of the Management Board by the Supervisory Board. He replaced Robert Joyeux as Chairman of the Management Board on 1 April 2011. On 9 June 2011, the Supervisory Board renewed his term of office for a further period of three years.

Thierry Barel graduated from ENSAM as an engineer and holds a degree from IMD.

Before joining the Faiveley Transport Group, from 2007 to 2009 Thierry Barel served as Chief Executive Officer of PhotoMe International, a Group listed on the London Stock Exchange that manufactures and operates automatic distribution machinery and instant photographic printing. Beforehand, he spent the greater part of his career with industrial group Staübli, a world leader in mechatronics, where he ultimately held the position of Chief Executive Officer.

– Other positions held within the Group

- Chairman of the Management Board of:
  - Faiveley Transport Lekov;

- Chairman of:
  - Faiveley Transport Amiens,
  - Faiveley Transport NSF,
  - Faiveley Transport Tours;

- Chairman of the Board of Directors of :
  - Ellcon National,
  - Faiveley Transport Acquisition,
  - Faiveley Transport Far East,
  - Faiveley Transport Ibérica,
  - Faiveley Transport Nordic,
  - Faiveley Transport Malmö,
  - Faiveley Transport Systems Technology (Beijing),
  - Faiveley Transport USA;

- Director of:
  - Amsted Rail Faiveley LLC,
  - Datong Faiveley Coupler Systems,
  - Faiveley Transport Asia Pacific,
  - Faiveley Transport Belgium,
  - Faiveley Transport Bikenhead,
  - Faiveley Transport Canada,
  - Faiveley Transport Italia,
  - Faiveley Transport Korea,
  - Faiveley Transport Plzen,
  - Faiveley Transport Rail Technologies India,
  - Faiveley Transport Tamworth,
  - Graham-White Manufacturing Co.,
  - Qingdao Faiveley Sri Brake,
  - Sab Wabco,
  - Sab Wabco D&M,
  - Sab Wabco Investment,
  - Sab Wabco Products,
  - Sab Wabco UK,
  - Shanghai Faiveley Railway Technology,
  - Shijiazhuang Jiaxiang Precision Machinery,
  - SW D&M Products,
  - Transequipos;

- Manager of:
  - Faiveley Transport Witten,
  - Faiveley Transport Verwaltungs.

– Terms of office which expired during the last five financial years

- Chief Executive Officer of:
  - Faiveley Transport Tours;

- Chairman of:
  - KIS;

- Director of:
  - Photo-Me International [1],
  - Prontophot.

• Erwan Faiveley (born 27 July 1979)

On 27 September 2005, Erwan Faiveley was appointed member of the Management Board by the Supervisory Board. On 9 June 2011, the Supervisory Board renewed his term of office for a further period of three years.

Erwan Faiveley graduated from École Supérieure de Commerce de Paris and holds an MBA from the Columbia Business School. He worked with the Bacou-Dalloz group from 2002 to 2004, before his appointment as Chairman and Chief Executive Officer of FFP, Financière Faiveley and CVVB in 2004.

(1) Listed company.

– Other current positions

- Chairman of:
  – Financière Faiveley,
  – François Faiveley Participations,
  – Consortium Viticole & Vinicole de Bourgogne;

- Permanent representative of:
  – François Faiveley Participations with Société Bourguignonne d'Exploitation Viticoles;

- Manager of:
  – Faiveley Frères,
  – Société Civile Viticole Faiveley,
  – SCI du Dauphiné,
  – SCI Voir Venise,
  – SCI du 13 square Henri Pâté.

• Guillaume Bouhours (born 3 July 1976)

On 1 April 2011, Guillaume Bouhours was appointed member of the Management Board by the Supervisory Board. On 9 June 2011, the Supervisory Board renewed his term of office for a further period of three years.

Guillaume Bouhours graduated from engineering schools Ecole des Mines de Paris and Ecole Polytechnique.

Guillaume Bouhours was a Director of Sagard, a private equity fund and a previous shareholder of Faiveley Transport. In this role, he participated actively in Sagard's investment decisions and was involved throughout the decision-making process of LBOs implemented by Sagard: from the analysis of the investment opportunity through to the finalisation of the financial and legal aspects of each transaction.

Guillaume Bouhours previously worked in the European Merger & Acquisition department of investment bank Morgan Stanley.

– Other positions held within the Group

- Chairman of the Supervisory Board of:
  – Faiveley Transport Lekov;

- Director of:
  – Faiveley Transport Acquisition,
  – Faiveley Transport Belgium,
  – Faiveley Transport Birkenhead,
  – Faiveley Transport Ibérica,
  – Faiveley Transport Italia,
  – Faiveley Transport Korea,
  – Faiveley Transport Malmö,
  – Faiveley Transport Nordic,
  – Faiveley Transport Rail Technologies India,
  – Faiveley Transport Systems Technology (Beijing),
  – Faiveley Transport Tamworth,
  – Faiveley Transport Tresmonice,
  – o.o.o Faiveley Transport,
  – Sab Wabco,
  – Sab Wabco D&M,
  – Sab Wabco Investment,
  – Sab Wabco Products,
  – Sab Wabco UK,
  – SW D&M Products,
  – Transequipos;

- Manager of:
  – Faiveley Transport Verwaltungs.

– Terms of office which expired during the last five financial years

- Member of the Supervisory Board of:
  – HMY International,
  – Souriau Technologies Holding,
  – Souriau Holding,
  – Souriau,
  – Stromboli Investissements;

- Director of:
  – Olympia Group of Companies,
  – Faiveley Transport.

1.2. COMPOSITION OF THE SUPERVISORY BOARD

Pursuant to the bylaws, the Supervisory Board comprises a minimum of five members and a maximum of ten members.

The Company adopted the form of a public limited company with a Management Board and a Supervisory Board at the General Meeting held on 27 September 2005. The first members, formerly Directors of the Company constituted as a public limited company with a Board of Directors, were appointed for an initial period of three years and were reappointed at the Annual General Meeting held on 17 September 2008 for a period of 6 years, in accordance with the Company's bylaws.

The Combined General Meeting of 14 September 2011 amended Article 19 of the Company's bylaws. The term of office of Board members is three years, but as an exception and to allow the implementation and the maintenance of staggered terms of office for members of the Supervisory Board, the latter may be appointed by the General Meeting for periods of one (1) or two (2) years. Board members may be re-elected.

The option to stagger the terms of office of members of the Supervisory Board was implemented when terms of office were submitted for approval by the Combined General Meeting of 14 September 2011. The term of office of one third of Board members will thus expire every year.

Any shareholder, individual or corporate, may be elected as a member, subject to their holding at least one share in the Company (Article 19 of the bylaws).

The Supervisory Board elects, from among its own members, a Chairman and a Vice-Chairman, who are individual shareholders, otherwise their appointment is null and void. The Chairman and Vice-Chairman are responsible for calling board meetings and leading discussions.

(1) Listed company.

Where a legal entity assumes the function of a member of the Supervisory Board, it is required to designate a permanent representative who is subject to the same conditions and requirements and who has the same civil and personal liability as if they were a member of the Board in their own name.

Members of the Management Board, as well as current or former statutory auditors and their parents or relatives under the laws, may not be members of the Supervisory Board.

The education and professional experience of board members are quite varied, given that they have all held high-level management positions.

With regard to the independence criteria defined by the Supervisory Board, and after a study of the individual position of each member of the Supervisory Board, at 31 March 2012 four of the current ten members may be considered independent: Hélène Auriol-Potier, Nicoletta Giadrossi-Morel, Christian Germa and Maurice Marchand-Tonel.

At 31 March 2012, the Supervisory Board comprised ten members, all French nationals, given that Christopher Spencer has dual French and British nationality. The average age of the members at 31 March 2012 was 56.

The members appointed by the General Meeting are as follows:

• Philippe Alfroid (born 29 August 1945)

Philippe Alfroid was appointed a Supervisory Board member at the General Meeting of 27 September 2005 and was reappointed at the Combined General Meeting of 14 September 2011.

He has been Chairman of the Supervisory Board since 22 September 2009.

Philippe Alfroid is an ENSEHRMA-Grenoble engineer and holds a Master of Science from Massachusetts Institute of Technology (MIT). Philippe Alfroid worked as a consultant for the company PSDI. He then joined Essilor in 1972, where he was Chief Executive Officer from 1996 to 2009.

– Other current positions

- Director of:
  - Essilor International [1],
  - Essilor of America,
  - Eurogerm [1],
  - Gemalto [1].

– Terms of office which expired during the last five financial year

- Deputy CEO of:
  - Essilor International;

- Director of:
  - Sperian Protection [1],
  - Gentex Optics,
  - EOA Holding Co,
  - EOA Investment Inc.,
  - Omega Optical Holding,
  - Essilor Canada LTEE/Ltd,
  - Pro-Optic Canada,
  - Shanghai Essilor Optical Company,
  - Faiveley Transport.

• François Faiveley (born 26 April 1951)

François Faiveley was appointed as a member of the Supervisory Board at the General Meeting of 27 September 2005 and was reappointed at the Combined General Meeting of 14 September 2011.

He has been Vice-Chairman of the Supervisory Board since 22 September 2009.

François Faiveley is a graduate from ESCAE (Business School) in Dijon. He has served in operational and management positions within the Faiveley Transport Group since the start of the 1990s.

– Other current positions

- Director of:
  - Financière Faiveley.

– Terms of office which expired during the last five financial years

- Director of:
  - Faiveley Transport.

• Didier Alix (born 16 August 1946)

Didier Alix was co-opted as a member of the Supervisory Board at its meeting held on 27 November 2009 following the resignation of Christian Baffy. His appointment as a member of the Supervisory Board was ratified at the General Meeting of 13 September 2010 and was reappointed at the Combined General Meeting of 14 September 2011.

Didier Alix joined Société Générale in 1971, where he held a number of positions, notably within the Inspection Générale then as Head of Central Risk Control. He was also Head of Branch Offices before being promoted to Chief Executive Officer of Franfinance, then Head of Réseau France. In 1998, he became Deputy Chief Executive Officer for Individuals and Businesses. In 2006, he became Deputy Chief Executive Officer of Société Générale. He is currently Advisor to the Chairman and Chief Executive Officer.

– Other current positions

- Chairman of the Supervisory Board of:
  - Komercni Banka;

- Chairman and Chief Executive Officer of:
  - Sogébail;

(1) Listed company.

- Member of the Supervisory Board of:
  - Société Générale Marocaine de Banques;

- Chairman of:
  - Fondation d'entreprise SG pour la solidarité;

- Director of:
  - Banque Roumaine de Développement,
  - SG Private Banking Suisse,
  - Yves Rocher,
  - Crédit du Nord,
  - Rémy Cointreau (1),
  - Société Gestion Saint Jean de Passy.

– Terms of office which expired during the last five financial years

- Deputy CEO of:
  - Société Générale (1);

- Director and Vice-Chairman of:
  - Société Générale de Banques en Côte d'Ivoire;

- Permanent representative of Salvepar to the Supervisory Board of :
  - Latécoère;

- Director of:
  - Franfinance,
  - National Société Générale Bank SAE (NSGB),
  - Société Générale de Banques au Cameroun,
  - Société Générale de Banques au Sénégal,
  - Société Générale au Liban,
  - MISR International Bank,
  - Sogessur,
  - Fiditalia,
  - Sg Private Banking Suisse,
  - SGBT Luxembourg,
  - Société Générale de Banques en Côte d'Ivoire.

• Hélène Auriol-Potier (born 26 November 1962)

Hélène Auriol-Potier was appointed as a member of the Supervisory Board at the Combined General Meeting of 14 September 2011.

Hélène Auriol-Potier graduated as an engineer from the Ecole Nationale Supérieure des Télécommunications in Paris and completed an Executive Programme from INSEAD. She started her career at France Telecom and then joined the company Nortel where she held several positions before becoming Vice President of the Service & Operations division. She then joined the company Dell where she was responsible for emerging markets in the Africa and Mediterranean region as Chief Operating Officer and member of the Executive Committee of Dell Emerging Markets. Today she is Chief Executive Officer – Enterprises and Partners – and a member of the Executive Committee of Microsoft France.

• Serge Choumaker (born 18 September 1959)

Serge Choumaker was appointed as a member of the Supervisory Board representing employee shareholders at the Combined General Meeting of 13 September 2010.

He is Head of Accounting & Consolidation within the Faiveley Transport Group. Serge Choumaker holds a D.E.C.S. He joined the Faiveley Transport Group in September 2001. Previously, Serge Choumaker held management positions as Head of Accounting at the companies Lafarge and Ferembal.

• Christian Germa (born 11 February 1970)

Christian Germa was appointed as a member of the Supervisory Board at the Combined General Meeting of 27 September 2005 and was reappointed at the Combined General Meeting of 14 September 2011.

Christian Germa is a graduate of the Ecole Polytechnique and he is qualified as an 'Ingénieur des Ponts et Chaussées'. He began his career in the Treasury Management of the Ministry of Finance, where he carried out the duties of Deputy Secretary General to the Comité Interministériel de Restructuration Industrielle (Inter-Ministerial Committee for Industrial Restructuring). He joined the Vinci Group in 2002, where he is today responsible for public-private partnerships.

– Terms of office which expired during the last five financial years

- Director of:
  - Faiveley Transport,
  - Vodafone SA (1).

• Nicoletta Giadrossi-Morel (born 16 May 1966)

Nicoletta Giadrossi-Morel was appointed as a member of the Supervisory Board at the Combined General Meeting of 14 September 2011.

Nicoletta Giadrossi-Morel began her university studies at Yale before graduating from Harvard with an MBA. She is Vice-Chairman and Chief Executive Officer of Dresser-Rand, EMEA (Europe, Middle-East, Africa). She also worked as a consultant in private equity for Boston Consulting Group, and spent ten years with General Electric where she held various profit centre management roles, in particular in the "Equipment Management" and "Oil & Gas" divisions.

– Other current positions:

- Chairman of the Board of Directors of:
  - Dresser Rand SA,
  - Dresser Rand SAS;

(1) Listed company

- Manager of:
  - H.F.M;

- Director of:
  - Aker Solutions asa.

– Terms of office which expired during the last five financial years

- Chairman of:
  - SMO SAS,
  - Ramosport.

• Robert Joyeux (born 2 September 1947)

Robert Joyeux was appointed as a member of the Supervisory Board at the Combined General Meeting of 14 September 2011.

Robert Joyeux holds a PhD in electronics and graduated from Sciences Politiques Paris with an economics and finance degree. He held several positions before joining the Faiveley Transport Group. He worked for the company Thompson (Thales) for 17 years in a variety of industrial roles before joining Tekelec Airtronic as the General Manager of the Components and Systems Division and then Alstom as General Manager for the Protection, Energy and Control division and the British group Laird as Chief Executive Officer. Robert Joyeux held the position of Chief Executive Officer of Faiveley Transport from 2001. He resigned from his positions on 31 March 2011 and currently works as a consultant.

– Other positions currently held

- Manager of:
  - RJX Consulting;

– Terms of office which expired during the last five financial years

- Chairman of the Management Board of:
  - Faiveley Transport;

- Chairman of the Board of Directors of:
  - Faiveley Transport,
  - Faiveley Transport USA,
  - Faiveley Transport Acquisition,
  - Faiveley Transport Malmö,
  - Faiveley Transport Nordic,
  - Faiveley Transport Tamworth,
  - Faiveley Transport Ibérica,
  - Faiveley Transport Far East;

- Chairman of SAS:
  - Faiveley Transport Tours;
- Chairman of the Supervisory Board of:
  - Faiveley Transport Lekov;

- Director of:
  - Qingdao Faiveley Sri Rail Brake,
  - Datong Faiveley Coupler Systems,
  - Sab Ibérica,
  - Sab Wabco UK,
  - Sab Wabco Sales,
  - Sab Wabco Investment,
  - Sab Wabco D&M,
  - Sab Wabco Products,
  - SW D&M Products,
  - Faiveley Transport Birkenhead,
  - Faiveley Transport Belgium,
  - Faiveley Transport Korea,
  - Faiveley Transport Italia,
  - Shanghai Faiveley Railway Technology,
  - Transequipos,
  - Ellcon National,
  - CIM;

- Manager of:
  - Faiveley Transport Verwaltungs,
  - Faiveley Transport Beteiligungs,
  - Sofaport.

• Maurice Marchand-Tonel (born 14 February 1944)

Maurice Marchand-Tonel was appointed as a member of the Supervisory Board at the General Meeting held on 22 September 2009, following the resignation of Stéphane Volant, and reappointed at the Combined General Meeting of 14 September 2011.

Maurice Marchand-Tonel is an independent consultant. On leaving Harvard Business School, he started his career with the Boston Consulting Group with whom he co-founded their French and German offices. He was subsequently appointed Chairman of Compagnie Olivier, and subsequently Chief Executive Officer of Sommer and Chairman of Givenchy. He then managed Ciments Français International, before becoming Chairman of Transalliance until 1999. In 2000, he became a partner with Arthur Andersen, which has since become BearingPoint, where he has been Senior Advisor since 2004. Maurice Marchand-Tonel is also Senior Adviser of Investcorp (London and New York) and Newbury Piret (Boston). Maurice Marchand-Tonel is Chairman of the Board of Directors and a Founder of the European American Chamber of Commerce.

– Other current positions

- Chairman of the Board of Directors of:
  - European American Chamber of Commerce (Paris);

- Director of:
  - European American Chamber of Commerce (New York),
  - Essilor International [1].

– Terms of office which expired during the last five financial years

- Chairman of the Supervisory Board of:
  - Du pareil au même;

(1) Listed company

- Director of:
  - Faiveley Transport,
  - Financière Huysmans,
  - Groupe Souchier.

• Christopher Spencer (born 4 November 1962)

Christopher Spencer was appointed as a member of the Supervisory Board at the Combined General Meeting of 22 September 2009, following the resignation of Denis Grand-Perret, and reappointed at the Combined General Meeting of 14 September 2011.

He was previously a Director of Faiveley Transport (November 2004–February 2009).

Christopher Spencer holds both French and German degrees in higher management studies (ESC Reims and Fachhochschule Reutlingen) and is a Chartered Accountant. With an experience of over 20 years in private equity in Europe, the last 6 years of which were spent with Sagard funds, which he helped establish in the French market, since the start of 2010 Christopher Spencer has focused on his activities in private investment and as a business angel.

– Other current positions

- Director of:
  - Adminium SA.

– Terms of office which expired during the last five financial years

- Chairman of the Supervisory Board of:
  - Cougar Management;

- Vice-Chairman of the Supervisory Board of:
  - Cougar Investissements SAS;

- Chairman of:
  - Cougar International;

- Director of:
  - SGD,
  - Olympia.

Xavier de Lavallade, Legal Counsel for the Group, serves as Secretary of the Board.

Members of the Supervisory Board can be contacted through the Company's head office: Immeuble Le Delage – Hall Parc – Bâtiment 6A – 3 rue du 19 mars 1962, 92230 Gennevilliers, France.

(1) Listed company

D.2. Directors' remuneration

2.1. REMUNERATION AND ATTENDANCE FEES

During 2011/2012, the total remuneration, direct and indirect, of all kind received by members of corporate bodies of the Company amounted to €1,569,760.

Pursuant to Article L. 225-102-1 of the Commercial Code, we disclose the remuneration and benefits in kind of every nature received by every senior executive, during the year, from companies controlled in the sense of Article L. 233-16 of the Commercial Code:

	Remuneration				
Nom	Fixed	Variable	Deferred	Directors' fees paid by Group companies	Benefits in kind
Philippe Alfroid Chairman of the Supervisory Board	–	–	–	45,200	–
François Faiveley Vice-Chairman of the Supervisory Board	–	–	–	19,200	–
Didier Alix Member of the Supervisory Board	–	–	–	15,200	–
Serge Choumaker (1) Member of the Supervisory Board, Representative of employee shareholders	116,498	29,762	–	–	–
Christian Germa Member of the Supervisory Board	–	–	–	22,800	–
Robert Joyeux Member of the Supervisory Board	–	–	–	–	–
Maurice Marchand-Tonel Member of the Supervisory Board	–	–	–	16,400	–
Christopher Spencer Member of the Supervisory Board	–	–	–	17,600	–
Edmond Ballerin (2)	–	–	–	2,000	–
Thierry Barel (1) Chairman of the Management Board	432,794	381,300	–	–	Company car
Erwan Faiveley (3) Member of the Management Board	96,000	–	–	–	Housing allowance
Guillaume Bouhours (1) Member of the Management Board	214,173	160,833	–	–	Company car

(1) On 5 March 2012, the Management Board allocated free shares to a number of Group employees and executives, including 4,000 to Thierry Barel, 1,600 shares to Guillaume Bouhours and 800 shares to Serge Choumaker.

(2) The term of office of Edmond Ballerin as member of Supervisory Board was terminated in September 2011.

(3) Erwan Faiveley is an employee of François Faiveley Participations (F.F.P).

You will also find, in the appendices to this report, a detailed description of total remuneration received by directors of the Company, in accordance with AMF recommendations.

You should also decide on the total amount of Directors' fees paid to the Supervisory Board for the year ended 31 March 2012, which we propose be set at €260,000.

2.2. SUMMARY OF TRANSACTIONS IN 2011/2012 IN FAIVELEY TRANSPORT SHARES BY SENIOR EXECUTIVES AND INDIVIDUALS REFERRED TO IN ARTICLE L. 621-18-2 OF THE MONETARY AND FINANCIAL CODE

Director/senior executive	Financial instruments	Nature of transaction	Number of transactions	Value (€)
Thierry Barel, Chairman of the Management Board	Shares	Purchase	1	20,000
Individual related to Thierry Barel, Chairman of the Management Board	Shares	Purchase	1	20,000
Guillaume Bouhours, Member of the Management Board	Shares	Purchase	4	56,790.90
François Feugier, Member of the Executive Committee	Shares	Purchase	2	40,484.25
Lilian Leroux, Member of the Executive Committee	Shares	Exercise of stock-options	1	91,998
Lilian Leroux, Member of the Executive Committee	Shares	Disposal	2	291,400
Giovanni Boe, Member of the Executive Committee	Shares	Exercise of stock-options	2	217,123.20
Giovanni Boe, Member of the Executive Committee	Shares	Disposal	2	356,789
Marc Jammot, Member of the Executive Committee	Shares	Disposal	1	282,532.53
Helen Balandrau, Member of the Executive Committee	Shares	Disposal	1	128,000

E. CORPORATE INFORMATION RELATING TO THE GROUP

E.1. Corporate information

1.1. HUMAN RESOURCES POLICY

Faiveley Transport is a group with an international culture and dimension. Its business is reflected in long-term contractual relationships with its customers. In order to capitalise on knowledge acquired throughout the life of these projects, the Group has resources enabling it to ensure staff loyalty over time.

The Group provides real prospects for career development through a policy of geographical mobility and shared expertise.

The Human Resources Department has been strengthened and is standardising the human resources policy on all sites, to streamline costs, to encourage staff mobility and to optimise career management.

Since the start of 2008, new indicators have been put in place by the Human Resources Department, in all of the 50 sites in 25 countries. Today, the consolidation and analysis of these indicators provides better insight into Company needs and helps establish priorities in the best way possible.

1.1.1. Ensuring the development of employee expertise

The policy adopted by the Human Resources Department is based on the dynamics of mobility and exchange of experiences. The more skills are transferred and good practices exchanged among the various entities in the world, the greater the level of the Group's expertise is reinforced.

Bolstered by this conviction, Faiveley Transport encourages the development of technical and project teams, working as closely as possible with their customers. Technical knowledge acquired by the Faiveley Transport staff, based at the four corners of the world, enables them to support their customers better and respond to their needs.

Using the strength of its expertise at a local level, the Group takes full advantage of its international scale.

The Group seeks to retain its human capital, that of its engineers as well as all employees, to provide a better response to the overriding requirements of reliability, safety and extended life of its equipment.

It is for this reason that the Group encourages internal mobility, both on a professional and geographic basis. This can provide a solution to the need to adapt employment levels as well as to integrate the aspirations of the employees.

Internal mobility also provides employees with career opportunities that encourage their professional development by the acquisition of new skills and qualifications.

In order to promote this internal mobility, a section has been created on the Group's intranet portal where everyone can preview the positions open at all sites around the world. It is only thereafter that job offers are advertised externally.

In the same vein, since 2009, in conjunction with all local Human Resources executives, the Group has been committed to continuing the review of existing tools and practices, to improve the contents and to ensure that a common Group standard is used in every country (in the area of training, annual performance review, etc.).

For instance, a common policy was implemented for holding annual performance review interviews; a common performance review form for all entities was prepared in consultation with local Human Resources officers.

At the same time, in order to support managers in this process, training will be provided on how to conduct these interviews.

This thought process continued via the creation of a Group-wide induction booklet. This document is intended to provide every new hire with a comprehensive overview of the Faiveley Transport Group, as well as all practical local information necessary to their integration. This is also a means of strengthening the sense of belonging to Faiveley Transport.

In 2011, continuing the spirit of standardising existing tools and practices, several projects emerged:

- a Group-wide information technology charter was established and distributed to all subsidiaries. This charter is intended to formalise legal, ethical and security regulations for the use of information systems and for communication within the companies belonging to the Faiveley Transport Group;
- a time management tool has been rolled out in France in an effort to streamline and optimise payroll administration tasks;
- a new database to pool all the administrative data on all Group employees, regarding payroll and career development, is currently being developed.
  Information such as salaries and bonuses will thus be managed using this software. This module will provide managers with a comprehensive overview of their teams, wherever they may operate in the world, both from the point of their change in salary and their career path, before and after they join Faiveley Transport.
  Over time, this software will also enable the Group's Human Resources Department to optimise career plan monitoring and further promote international mobility.

In this constantly changing economic environment for Group companies, maintaining and developing employees' expertise is an essential feature of the growth and overall performance of the Group.

Professional training constitutes in this respect a major area of the Human Resources policy. During the year, the training programmes concerned all positions.

In addition to making people aware of safety measures and quality standards, the largest part of the training budget continued to be dedicated to updating technical skills. In this area, the requirements have been defined by department managers together with the Human Resources departments.

There is also a strong need for Group employees to improve their proficiency in English.

The training policy is entirely adapted to the local level in line with the issues encountered at each site.

However, decentralisation does not rule out control. The Group remains vigilant and ensures that training is consistent from one site to another; the standardisation of practices must aim at providing suitable training for each category of personnel to meet the needs of all entities.

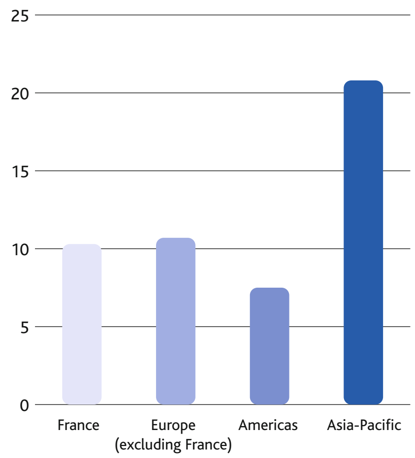
The objectives of the training indicators are to monitor the training budget of each entity, the percentage of trained employees and managers and the nature of training organised.

– Percentage of gross payroll dedicated to training [1]

Region	In 2011/2012	In 2010/2011
France	2.16%	1.70%
Europe (excluding France)	1.48%	0.73%
Americas	1.51%	0.95%
Asia-Pacific	1.35%	2.15%

(1) Only teaching costs are included.

– Average number of training hours per employee per year



This chart shows that the number of training hours per year and per employee is higher in the Asia/Pacific region and that this figure is not proportional to the amount of gross payroll devoted to training. This primarily includes in-house training programmes that did not involve external training companies.

– Number of training hours by category of personnel, per year

Region	Managers	Employees	Operatives
France	12	8	10
Europe (excluding France)	25	9	11
Americas	1	26	1
Asia-Pacific	49	10	22

– Number of training hours provided in each field during the year

Region	Position	Management	Languages	Total
France	9,585 *70%*	2,468 *18%*	1,598 *12%*	13,651 *100%*
Europe (excluding France)	13,718 *79%*	1,292 *7%*	2,487 *14%*	17,497 *100%*
Americas	3,616 *60%*	1,524 *25%*	879 *15%*	6,019 *100%*
Asia-Pacific	15,388 *55%*	9,397 *33%*	3,489 *12%*	28,273 *100%*
TOTAL	**42,306** *65%*	**14,680** *22%*	**8,453** *13%*	**65,439** *100%*

1.1.2. Promoting a common culture

– Respect for cultures and standardisation of processes

Given the growing internationalisation of the Group, the position adopted was to respect the diversity of each country and to allow local customers the possibility of retaining a local contact.

Every site therefore retained its identity, while respecting common values, which are: quest for performance and results, stimulation of creativity and sharing of experiences.

Through the generalised and systematic exchange of best practices between sites, a set of best practice rules have been defined and implemented. The standardisation of processes is fundamental to enable everyone to have a clear understanding of their action plan and expected results.

Management uses key performance indicators, focuses its efforts on performance improvement, thus contributing to greater motivation of all employees.

To achieve this, Faiveley Transport also uses the development of the industrial excellence system based on the "Lean manufacturing" method. This method consists of seeking industrial performance, by permanent and continuous improvement and the elimination of waste. It is based on two principal concepts: just-in-time and autonomation.
The just-in-time tools are the production with continuous and driven flows, the rapid change of tools and the integration of logistics. The autonomation tools include tools to automatically stop production, the methods of elimination of causes of errors and the analysis of problems.

The rollout of these techniques is based on the human resources of the business and their integration into the areas of improvement achieved, in most cases in the field.

The following programmes deserve a special mention: QRQC and TOP5, which encourage the staff to exchange ideas and develop action plans for improvement. The objective of this type of initiative is to offer solutions to the operational problems identified.

The QRQC method (Quick Response Quality Control) enables rapid solutions to be put in place for quality or other problems. The involvement of the personnel in the resolution of quality problems facilitates relations between departments and enables operators to improve their working conditions.

In the principal sites, the working day now starts with a 15-minute meeting on site. This is an opportunity to discuss problems encountered at their workstation and to propose ideas for improvement that may be rewarded on certain sites. This daily meeting enables them also to have a complete view of their results as well as the objectives to be achieved during the day.

– Development of internal communication

Faiveley Transport also continues to roll out its various internal communication tools to improve dialogue, promote communication amongst employees and to distribute Group information.

Within the Group, information circulates both from the bottom-up and the top-down within the organisation, via various communication tools, including:
- an intranet portal accessible to all Group subsidiaries;
- an internal Group newsletter (printed in four languages, including Chinese);
- an intranet network for each entity;
- a monthly information letter within certain companies;
- organisation of exchange meetings at operating company-level;
- organisation of annual business seminars (HR seminar, Finance seminar, Engineering seminar, etc.);
- organisation of annual meetings between the various Group managers;
- regular one-to-one meetings organised between employees and their immediate supervisor.

1.2. ANALYSIS OF WORKFORCE

At the end of March 2012, the Faiveley Transport Group had 5,469 employees across 25 countries worldwide. The change in the workforce during the last two years was as follows:

- **Geographic analysis**

	31 March 2012	31 March 2011
France	1,260	1,285
Europe (excluding France)	1,937	1,914
Americas*	784	384
Asia-Pacific	1,488	1,531
TOTAL	**5,469**	**5,114**

* including the workforce of Graham-White Manufacturing Co. acquired in February 2012: 352 people

- **Analysis of workforce by type of employment contract**

	31 March 2012		31 March 2011	
	Permanent	Fixed term	Permanent	Fixed term
France	1,217	43	1,226	59
Europe (excluding France)	1,808	129	1,781	133
Americas*	749	35	367	17
Asia-Pacific	1,385	103	1,453	78
TOTAL	**5,159**	**310**	**4,827**	**287**

* including the workforce of Graham-White Manufacturing Co. acquired in February 2012: 352 people

• Female employees at 31 March 2012

	France	Europe (excluding France)	Americas*	Asia-Pacific	Total
Female executives	1	–	–	–	1
Female managers	69	13	10	22	114
Female employees	130	264	51	165	610
Female operatives	57	59	87	31	234
TOTAL	**257**	**336**	**148**	**218**	**959**
as % of total workforce	*20%*	*17%*	*19%*	*15%*	*18%*

* including 81 women in the workforce of Graham-White Manufacturing Co. acquired in February 2012.

• Analysis of workforce by role at 31 March 2012

Function	31 March 2012	31 March 2011
Production	2,532	2,084
Purchasing, logistics and storage	798	786
Sales and marketing	470	510
Design office	749	784
Project management	275	255
Finance	193	188
Human resources and communications	77	69
IT	68	64
Administration	185	287
Research and development	123	87
TOTAL	**5,469**	**5,114**

* including the workforce of Graham-White Manufacturing Co. acquired in February 2012: 352 people.

• Analysis of workforce by age at 31 March 2012

Age	France	Europe (excluding France)	Americas	Asia-Pacific	Total	%
18-24	30	58	38	149	275	5%
25-34	239	405	165	785	1,594	29%
35-44	477	529	189	322	1,517	28%
45-54	340	519	212	174	1,245	23%
55-64	173	339	161	57	730	13%
>65	1	87	19	1	108	2%
TOTAL	**1,260**	**1,937**	**784**	**1,488**	**5,469**	**100%**

It should be noted that over 57% of the workforce of the Faiveley Transport Group is aged between 25 and 44 years old.

• Analysis of workforce by length of service at 31 March 2012

Seniority	France	Europe (excluding France)	Americas	Asia-Pacific	Total	%
Less than 2 years	152	365	256	396	1,169	21%
2 to 5 years	300	442	149	559	1,450	27%
5 to 10 years	192	325	154	231	902	17%
10 to 15 years	168	265	68	70	571	10%
Over 15 years	448	540	157	232	1,377	25%
TOTAL	**1,260**	**1,937**	**784**	**1,488**	**5,469**	**100%**

It should be noted that 48% of the workforce has been with the Company for less than 5 years and over 25% have over 15 years of service.

• **Absenteeism at 31 March 2012**

Region	31 March 2012	31 March 2011
France	2.2%	3.0%
Europe (excluding France)	3.1%	3.0%
Americas	0.7%	2.0%
Asia-Pacific	1.1%	0.8%
TOTAL	**1.8%**	**2.2%**

In most countries, absenteeism at the sites is below the national average for comparable industries. Overall, the Group's rate is 1.8% (number of hours of absence/theoretical number of working hours).

• **Turnover rate at 31 March 2012**

Region	Turnover
France	1%
Europe (excluding France)	3%
Americas	1%
Asia-Pacific	5%

• **Number of new hires per geographic region and category of staff during the year**

Region	Executives	Employees	Operatives	Total
France	55	6	8	69
Europe (excluding France)	15	89	71	175
Americas	4	45	33	82
Asia-Pacific	25	165	54	244
TOTAL	**99**	**305**	**166**	**570**

• **Number of departures by geographic region and reasons for departure during the year**

Region	Resignation	Redundancies	Retirement	Total
France	38	7	18	63
Europe (excluding France)	102	67	25	194
Americas	29	32	2	63
Asia-Pacific	244	63	13	320
TOTAL	**413**	**169**	**58**	**640**

Redundancies were for individual reasons or related to the restructuring of industrial sites (Faiveley Transport Iberica, Faiveley Transport Metro Technology Shanghai, etc.).

1.3. ORGANISATION OF THE WORKING WEEK

In France, the reduction and structure of the working week effective within the Group are subject to the applicable laws and collective agreements. The steps taken to reduce working hours means overtime levels are low.

In the rest of the world, the structure of the working week and the management of overtime are governed by the law in each country.

1.4. REMUNERATION POLICY

Efforts undertaken to control payroll expenses were continued, while retaining the principle of individualised remuneration, based on results and performance.

Generally speaking, the financial resources available for wage and salary increases within the Group are negotiated annually with personnel representatives for all staff.

The remuneration policy for staff is as follows:
- individual increase depending on the results and performance of each employee;
- a variable annual bonus, which is given to staff and managers depending on Group and individual objectives, in all Group companies.

Management's objective is to maintain an increase in salaries throughout Group companies.

1.5. RECOGNITION OF EMPLOYEE BENEFITS

Employee benefits, mainly comprising pension commitments, are recorded in the consolidated financial statements in accordance with IFRS. These amounted to €32.8 million at 31 March 2012, compared to €33 million at 31 March 2011.

1.6. GENDER EQUALITY

Faiveley Transport is committed to promoting a level playing field of equality between men and women in their career development, access to training, salaries and in their position within the business.

Since the Law of 9 November 2010 on pension reform, in France, companies of 50 employees or more must now establish a plan of action to ensure gender equality at work from 1 January 2012. The Group Human Resources Management initiated this process at its all subsidiaries during 2011. Today, all subsidiaries in France implement applicable gender equality provisions, either through collective agreements or as a result of a unilateral decision.

1.7. WORK-RELATED ACCIDENTS, HEALTH AND SAFETY CONDITIONS

The prevention of health and safety risks is a priority for the Faiveley Transport Group.

The various risks encountered in its business and the steps taken to deal with them are described in the Chapter "2.3. Industrial and environmental risks - § Health and safety risks".

The Health and Safety committees in France meet quarterly. During these meetings, critical situations are discussed and priorities defined. The cost of any required action is also reviewed and the results of such steps are analysed.

Not only does the Group hold these meetings in accordance with applicable local legislation, it also ensures that staff have an updated

brochure containing information on health and safety measures within the Company and on acceptable staff behaviour. Fire drills are conducted on a regular basis.

In addition to the steps implemented by the health and safety committees, progress groups are continuing to work within the various companies of the Group, focusing on diverse areas of interest in order to improve risk prevention and implement the safety training policy.

Since the Law of 9 November 2010 on pension reform, companies that employ more than 50 people, or that employ less than 50 people but are part of a Group with a workforce of 300 or more, must negotiate a collective agreement or prepare an action plan to alleviate arduous working conditions. In 2011, all subsidiaries in France carried out an analysis to determine the percentage of employees exposed to arduous working conditions, in order to put into place the necessary actions to reduce exposure to this risk.

Faiveley Transport considers that the improvement of working conditions contributes to the Group's sustainability and development. This commitment is a necessity to ensure long-term competitiveness.

The prevention of occupational risks is based on both ethical and legal obligations. It is strategic to ensure the attractiveness of metalwork as an occupation and the necessary extension of the working life of employees.

The occurrence of work-related accidents is monitored, analysed and communicated to the health and safety committee on a monthly basis, through a number of indicators. Encouraging results in terms of employee safety were recorded as a result of total commitment by the Group's senior management.

	France		Europe (excluding France)		Americas		Asia-Pacific		Total	
	2011/2012	2010/2011	2011/2012	2010/2011	2011/2012	2010/2011	2011/2012	2010/2011	2011/2012	2010/2011
Number of accidents with work stoppage	29	36	25	48	1	–	7	6	62	90
Number of days stoppage	997	721	570	937	7	–	132	312	1,706	1,970
Number of accidents with no stoppage	48	18	71	84	–	4	29	24	148	130

1.8. CORPORATE INFORMATION CONCERNING COMPANIES OF THE FAIVELEY TRANSPORT GROUP

1.8.1. Collective agreements

The French companies of the Faiveley Transport Group are all subject to the national collective agreement in the metal industry.

1.8.2. Personnel representatives

Most subsidiaries of the Faiveley Transport Group have personnel representatives.

The Group has a European Works Council that meets twice a year, as well as a Group committee in France that meets once a year.

The Group convenes the meetings at a different site each time. The objective is to enable the representatives of these committees to make the most of these events and visit other industrial sites and thus discover other practices and cultures.

1.8.3. Employment and integration of disabled workers

All Group companies whose local laws provide for the employment of a certain percentage of disabled employees, comply with such local legal requirements.

Some of these subsidiaries employ a higher number of disabled workers than required by law.

The Human Resources Department recognises that this is a very important issue and in 2010 decided to ask its staff to think about how to best approach this topic within the Company.

			Legal obligation to employ disabled workers			
Sites	Annual legal obligation = BU * equivalent	Obligation met	Disabled people employed	BU * equivalent	Use of sheltered workshops	BU * equivalent
Faiveley Transport	3	1.09	NO	–	YES	1.09
Faiveley Transport NSF	6	2.90	YES	2.00	YES	0.90
Faiveley Transport Amiens	19	17.59	YES	8.58	YES	9.01
Faiveley Transport Tours	42	37.32	YES	23.39	YES	13.93
Faiveley Transport Gennevilliers	4	6.11	YES	6.09	YES	0.02

(*) Beneficiary Units.

1.8.4. Outsourcing

For the Group as a whole, outsourcing for the financial year 2011/2012 was valued at €37 million, compared to €33.7 million in the previous year.

The Group ensures that its subsidiaries comply with the fundamental provisions of working conditions in their relationships with subcontractors.

1.8.5. Charitable activities

It should be noted that the vast majority of the entities in the Faiveley Transport Group allocate a significant budget to various charitable activities. An example is the support of orphans in Cambodia.

1.9. PROFIT-SHARING SCHEMES

Faiveley Transport has set up a group savings scheme, which is common to all French sites.

Since June 2011, all French subsidiaries adhere to a new employee savings plan, which includes a Group savings plan (PEG) and a Group joint retirement savings schemes (PERCO). A Group committee meets once a year in France to monitor employee savings plan.

1.9.1. Profit-sharing agreements

All our French subsidiaries have implemented a profit-sharing agreement.

1.9.2. Bonus schemes

All our French subsidiaries have implemented a bonus scheme.

1.9.3. Health and welfare benefit plans

An audit of health and welfare benefit plans with a view to simplifying, standardisation and optimising costs has now been completed in France.

Today, following the results of this audit carried out in 2008 and after communicating and discussing results with our personnel representatives, a single insurance provider has been selected. In France, the Group now has standardised guarantees for all the personnel of the Group's companies, regardless of the category of employee.

1.9.4. Employee shareholding, share option and subscription plans and allocation of free shares

Faiveley Transport has set up a long-term motivation plan for employees. The objective is to enable certain employees to become shareholders in the Company and drive performance improvement.

– Share option plan authorised by the General Meeting of 27 September 2005

Since the acquisition of Sab Wabco in 2004, Faiveley Transport has implemented a share option plan for the benefit of the Group's key managers. This share option plan, amounting to a maximum of 325,000 Faiveley Transport shares, was approved by the General Meeting of 27 September 2005 and implemented by the Management Board.

In order to meet its future obligation to transfer these shares to beneficiaries, Faiveley Transport began a share buyback programme on the market at the end of 2005.

- the Management Board of 24 November 2005 awarded 221,760 options to 38 employees or managers of Faiveley Transport;
- the Management Board of 29 December 2005 awarded 6,720 new options to 1 new beneficiary;
- the Management Board of 22 June 2006 awarded 31,360 options to 6 new beneficiaries;
- the Management Board of 25 October 2006 awarded 6,720 options to 1 new beneficiary;
- the Management Board of 15 November 2006 awarded 4,480 options to 1 new beneficiary;
- the Management Board of 1 December 2006 awarded 11,200 options to 2 new beneficiaries;
- the Management Board of 2 April 2007 awarded 26,880 options to 5 new beneficiaries;
- the Management Board of 19 February 2008 awarded 26,880 options to 4 new beneficiaries;
- the Management Board of 29 March 2008 awarded 13,440 options to 3 new beneficiaries;
- the Management Board of 16 July 2008 awarded 22,600 options to 1 new beneficiary.

Options granted that were neither exercised nor cancelled amount to 77,035 shares.

Options can be exercised from the second anniversary of their date of allocation by the Management Board, subject to the beneficiary being employed by the Faiveley Transport Group on the day they are exercised and their acceptance of the option regulations. It should be noted that 239,005 options had been exercised at 31 March 2012. The securities can only be disposed of from the fourth anniversary of the allocation of the purchase option. No Director of Faiveley Transport has been granted any share options as part of this plan.

– Share subscription plan authorised by the General Meeting of 22 September 2009

A share subscription plan was approved by the Annual General Meeting of 22 September 2009. This plan was implemented in accordance with recent regulatory developments, in particular the Law of 3 December 2008 on income earned and the AFEP-MEDEF recommendations of October 2008.

This plan was put forward in accordance with agreements concluded as part of the restructuring of the share capital of Faiveley Transport carried out in December 2008 and was intended to motivate and encourage the loyalty of Directors and senior executives to the Group.

At its meeting of 23 November 2009, the Management Board decided to grant on the same date and up to 23 November 2017, options giving the right to subscribe for new shares in the Company, to be issued through a share capital increase not exceeding an overall nominal amount of €144,000, corresponding to 144,000 new shares at a par value of €1 each. The new shares will be issued at a price of €54.91.

The terms and conditions of exercise of the options were posted or provided to the beneficiaries in a document listing the option plan regulations. Since one of the beneficiaries is a member of the Management Board and therefore a senior executive, a retention obligation was specifically provided.

– Plan for the allocation of free performance-based shares authorised by the General Meeting of 13 September 2010

To enable the Faiveley Transport Group to motivate and retain certain employees and officers, and to optimise the remuneration structure within the Group, the Combined General Meeting of 13 September 2010 authorised the Management Board to proceed on one or more occasions with the allocation of free ordinary shares of the Company's, existing or to be issued, for the benefit of corporate officers as defined by Law and to certain employees of the Company and companies related to it.

These allocations will be made within the limit, established by the General Meeting, of 1% of the share capital of the Company at 13 September 2010.

- The Management Board of 3 December 2010 awarded 64,500 free shares to 38 beneficiaries.
- The Management Board of 24 February 2011 awarded 5,200 free shares to 5 new beneficiaries.

The allocation of these shares will become final only after a period of two years and after the application of performance criteria established by the Remuneration Committee. Beneficiaries will be required to comply with a mandatory retention period of two years from the date of final allocation.

The terms and conditions of these free shares were included in a set of plan rules that was sent to the beneficiaries. One of the beneficiaries being member of the Management Board and as such an officer at the date of allocation, an additional obligation to retain the shares allocated to him was defined. At its meeting on 26 November 2011, the Supervisory Board of the Company decided that the officer should retain at least 50% of the shares that were allocated by the Management Board under the new plan, beyond the period of unavailability as defined by the regulations therein. This rule will apply as long as the officer does not hold shares of the Company, acquired in the various plans to grant stock options or free shares of the Company, worth at least the equivalent of one year's net salary.

– Free share allocation plan authorised by the Combined General Meeting of 14 September 2011

The Combined General Meeting of 14 September 2011 delegated the Management Board powers for the allocation, on one or more occasions, of free ordinary shares of the Company, either existing or to be issued, for the benefit of corporate officers and to certain employees of the Company and companies related to it.

These allocations will be made within the limit of 1% of the share capital of the Company on the date of the Combined General Meeting.

At its meeting held on 4 January 2012, the Management Board decided to implement an employee shareholding plan aimed at a broader population of executives, including a free share allocation plan (Executive Shareholding Programme). The plan, designed to increase the loyalty and motivation of key Group executives, brings the personal interest of employees in line with Group performance and requires a personal effort from each beneficiary that is commensurate to their rank within the organisation.

Therefore, each beneficiary has the option to invest in Company shares (purchased in the market or by contribution of treasury shares already held) and to be granted two free shares for each share already held under the Executive Shareholding Programme. Final vesting of the shares will take place at the end of a period of two or four years following the allocation date, with a stipulation that the beneficiaries must retain these shares for a further period of two years after the vesting date.

At its meeting held on 5 March 2012, the Management Board set the final list of beneficiaries and the number of free shares to be granted. A total of 79,224 shares are thus to be granted to 151 beneficiaries.

Thierry Barel and Guillaume Bouhours, both beneficiaries of free shares under this plan, are subject to an additional retention condition in their capacity as executive officers. They must retain at least 50% of shares granted to them by the Management Board under this new plan after the end of the vesting period defined by plan regulations. This rule will apply as long as they do not hold shares of the Company, acquired in the various plans to grant stock options or free shares of the Company, worth at least the equivalent of one year's net salary.

The main features of share option purchase plans, share subscription and free share allocation plans are detailed in Note E.11 – Equity to the consolidated financial statements.

E.2. Corporate responsibility

2.1. LOCAL, ECONOMIC AND SOCIAL IMPACT

Most of Faiveley Transport's production sites have been established for many years in the same region and are well accepted by the local population. The Group aims to recruit its teams locally and is often recognised as one of the largest employers in the areas in which it operates. In 1989, the company Elicon-National thus decided to leave New Jersey and set up its operations in Greenville, South Carolina, a town which was experiencing a high rate of unemployment at the time. Since then, this region of the US has become an important business hub, attracting many international companies, in a particularly pleasant living environment.

The Faiveley Transport Group companies are also involved with local industrial and economic development where they are members of professional associations and take part in research studies with local schools and universities and sometimes partnerships with local training organisations.

The Faiveley Transport Group is also actively involved with local communities throughout the world, supporting several initiatives. The Group supports a Senegalese association which has already built a library and is currently building a school. The Group has also supported a Cambodian project for the past 10 years, which has resulted in the opening of a school especially for deaf-mute and blind children and students. The Group supports its daily activities. Another

initiative in India finances the studies of students suffering from great poverty. When they complete their Engineering studies, these young people can take up a position with one of the Group's local factories.

Faiveley Transport has also taken part in initiatives to support minority groups, such as those with disabilities or the sick, in several countries. Through its career management policy, Faiveley Transport promotes dialogue between communities and respecting diversity is of great importance to the Group.

2.2. LONG-TERM DEVELOPMENT OF RELATIONSHIPS WITH FAIVELEY TRANSPORT SUPPLIERS

The Faiveley Transport Group aims to establish long-term relationships with its suppliers. For the Group, it is not a matter of seeking suppliers but rather partners in order to establish a relationship which brings about mutual, long-term benefits.

It is the Group's responsibility to see that all rules and best practices concerning the protection of people and the environment are implemented. Key factors in the choice of suppliers are respect for corporately responsible work standards to exclude all forms of discrimination and prohibit the recruitment of minors, as well as to prevent any favouritism.

The following policies have been implemented in the past two years:

- The "10 Commitments" Charter for better relationships between Faiveley and its suppliers:

  On 28 June 2010, Faiveley Transport signed the French Charter proposed by the French government to improve relationships between large and small to medium-sized companies.

  The companies which signed the Charter confirmed that they are committed to implementing best practices and fulfilling their responsibilities in an environment of mutual trust with suppliers, based on full knowledge and respect for the rights and obligations of each party.

  The "10 Commitments" Charter for responsible purchasing addresses the following:

  1. Ensuring financial equity in relation to suppliers.
  2. Promoting collaboration between major customers and strategic suppliers.
  3. Reducing the risk of mutual dependence between customers and suppliers.
  4. Involving major customers in the management of their industry.
  5. Assessing the full cost of the purchase.
  6. Incorporating environmental issues.
  7. Ensuring local responsibility for its company.
  8. Purchasing: one function and one process.
  9. A Purchasing function responsible for overall management of supplier relationships.
  10. Set a consistent buyers' remuneration policy.

- Commitment and training - purchasing teams:
  Likewise, all members of the Faiveley Transport purchasing team have signed the "Purchasing Charter" which defines and reminds the team of the basic values and the behaviour which all Group employees must adopt.

- Contractual agreements with suppliers:
  The new "Faiveley Transport - supplier agreement" comprises clear rules which provide for immediate termination of the supplier relationship where ethical and moral regulations are not complied with.

- Assessment of suppliers:
  Audits of Faiveley Transport suppliers contain a full chapter on environmental best practices, as well as on health and safety at work. The Group's suppliers must not engage in practices which could put their employers, their customers, the Company or the environment in danger. As such, no supplier may be classed as a Faiveley Transport supplier unless a supplier audit has been completed.

E.3. Environmental information

The Group's production activities, by their nature, generate little waste in the environment. The optimisation of the protection of the environment is one of the priorities for the Group whether in France or in its foreign subsidiaries. To this end, the Group takes initiatives to integrate environmental concerns into the management of its operations and facilities, in order to:
- comply with the legal and regulatory requirements that apply to all sites;
- find solutions that limit the impact of operations on the environment, prevent pollution and ensure continuous improvement in economic competitiveness;
- reduce non-renewable energy consumption and improve the quality of waste gases as well as improving waste sorting;
- contribute to the business and social aspects of sustainable development.

The procedures aimed at ensuring the correct application of environmental, health and safety regulatory provisions are decentralised and controlled by each of the main industrial sites. Environmental, health and safety costs are budgeted at site or unit level and recognised in the consolidated income statement. In all other subsidiaries, aspects liable to have an impact on the environment are integrated in the decision making and implementation structures of the management system.

The year 2011/2012 saw the continuing implementation of procedures and methods aimed at providing better management of legal provisions, objectives and rules in terms of environmental management.

The sites continued to take steps with a view to achieving ISO 14001 certification. This process is essential to meet customers' expectations and improve the public authorities and shareholders' trust in the Group.

At 31 March 2012, approximately ten entities, including the Group's main industrial sites, had been awarded ISO 14001 certification in relation to their environmental management; Faiveley Transport Iberica, which is a major production site in Europe was certified ISO 14001 in February 2012. This certification process has been initiated at other sites that have not yet been certified. Therefore, Faiveley Transport NSF is undergoing its own certification process.

Each industrial site now has an in-house manager responsible for coordinating Environmental, Health and Safety aspects.

In addition, in July 2011 the Group relocated its headquarters to a building in Gennevilliers, which has already been certified for HQE (High Environmental Quality). Faiveley Transport has a representative on the Green Committee that manages environmental aspects within the building.

3.1. MEASURES TAKEN TO ENSURE COMPLIANCE WITH LEGISLATIVE REQUIREMENTS

The Group seeks to bring all French and foreign sites together in a regular and genuine gathering of environmental information. This collective commitment led to the setting up of a general supervision programme at the sites.

Each of the Group's main industrial sites has established a set of objectives to reduce energy, water and raw material consumption, curb local impacts (noise pollution, etc.) and promote waste recycling. The Company's process is decentralised: each unit is responsible for its environmental self-assessment, for defining an action plan and associated objectives and for reporting its own environmental data.

Every site concerned has implemented regulatory monitoring, carried out an environmental analysis of its activities and identified actions to ensure compliance with standard and environmental regulations, such as the management of waste and chemicals. As part of this monitoring, possible irregularities and potential sources of nuisance or unnecessary energy consumption are specifically targeted for observation: an example of this is the battle against noise and the particular measures taken to remedy this issue in all the Group's industrial sites.

The Quality, Health and Environmental Safety staff at production sites have a duty to follow the applicable legislation and to analyse action plans implemented in order to conform. The effects of the Reach Regulation N°1907/2006 of 18 December 2006, which came into force on 1 June 2007 for the use of chemical substances by the Group that were included in the scope of application of this text, were taken into account in their entirety. The Group is committed to providing a positive contribution to the sustainable development of the European rail industry. The Company has voiced its intent to maintain and expand its operations in accordance with the founding principles of sustainable development.

The Group is fully aware of the requirements and has dedicated the necessary human and financial resources to take full responsibility and meet its targets. This a core concern for the Group's Operations department, which regularly assesses actions initiated and progress achieved.

Relative to the implementation of Directive 2002/95/CE of the restrictions on the use of dangerous substances and the Directive 2002/96/CE in respect of waste electronic and electrical equipment (WEEE), it appears that the Group's operations are not precisely covered by the categories stated in the various EU and national texts and are therefore not required to meet a deadline to conform.

Concerning the use of metals such as cadmium and lead, the various European production sites have adopted an approach to progressively eliminate these metals from products manufactured. The requirement to limit the use of these metals remains a medium-term objective, to the extent that Article 5 of the Directive 2002/95/CE expressly provides an exemption where substitution is technically or scientifically impossible or exempt from total safety compared to the final solution.

Despite the fact that the constraints imposed by the texts target more specifically the mass-market electronic and electrical products, specific attention is still paid to these issues.

Lastly, the Group seeks to make all suppliers aware by auditing their sustainable development policies.

3.2. SPECIFIC MEASURES TO LIMIT DAMAGE TO THE BIOLOGICAL BALANCE

In addition to the exercise of these controls, various new measures were introduced during the last year:
- installation of heat exchangers and heat economisers;
- use of bio-degradable oils and water-based paint;
- waste containers;
- reduction of packaging waste (wood, plastic, cardboard) and all associated treatment costs;
- water recovery systems;
- particle filters to reduce air emissions;
- retention basins and waste water disposal systems;
- centralised suction system with filters for sanding booths;
- compliance of fire-fighting water retention ponds with standards;
- outsourcing of alodine bath treatment (to avoid cyanide releases).

A significant reduction in environmental impact was also noted following the investment in cleaning machines that resulted in reduced water and solvent consumption and waste, at the sites dedicated to the Services division and also due to substantial investment at the Saint-Pierre-des-Corps site to double the production capacity in water-soluble paint and to comply with regulations on the discharge of Volatile Organic Compounds (VOCs). The new processes and systems can thus avoid any discharge of polluting compounds into the atmosphere.

Faiveley Transport Amiens has invested in an automated greasing system for its devices and machines. The advantages of this system are an almost 15% reduction of soiled packaging waste and the prevention of musculoskeletal (MSDs) disorders for operators, who no longer have to apply grease with a brush. This same entity has also decided to stop using chemical products Xn and F+, which are used to clean machine parts and assembly line workstations, replacing them with an environmentally-friendly "green" product.

The Faiveley Transport Tours sites, situated between the Loire and the Cher rivers, will also be subjected to a vulnerability assessment to define measures to reduce exposure to flooding. The aim is to identify strategic areas of the Company, to establish a potential disaster scenario, to define the weaknesses and rank them in order of significance. The aim is to implement an emergency procedure which will protect the Company's vital interests and at the same time help prevent potential harm to the environment, such as pollution from solvents, oils, paint, acid, etc.

During the past year, the prefectural authorisation for Faiveley Transport Tours' activities (at Saint-Pierre des Corps) has been subject to modifications to ensure its relevance to the business conducted on the production sites.

This entity has also completely updated its solvent management plan methodology to ensure it conforms to regulations on fugitive emissions.

As part of its commitments to its customers, Faiveley Transport now submits each major project for an environmental analysis at inception (% recyclability, % recovery, etc.). The Group took full note of the Environment Public Liability Directive 2004/35/CE, adopted on 21 April 2004, on environmental responsibility in respect of the prevention and restoration of environmental damage. By this text, which was transferred into French law by the Law n°2008-757 of 1 August 2008, a Group operation that damages fauna or flora is required to reverse the damage done or to bear the associated costs (at the discretion of the public authorities). Faced with this new regulation, the Group increased its attention to the protection of the environment and implemented the various options to cover this new area of liability with its insurers.

3.3. REDUCTION OF ENERGY INTENSITY AND GREENHOUSE GAS EMISSIONS AND OTHER ENVIRONMENTAL IMPACTS

For a number of years, the Group has sought to collect data on energy consumption within its industrial processes. This information enables the Group to be in keeping with greenhouse gas emission reduction objectives, established at an international level, in particular within the framework of the European Union's commitments.

• Gas consumption at the main industrial sites during the financial year ending 31 March 2012 (in KWh)

Entity	2011/2012	2010/2011
Shanghai Faiveley Railway Technology	60,000	–
Shijiazhuang Jiaxiang Precision Machinery	83,897	143,807
Qingdao Faiveley SRI Rail Brake	n.a.	n.a.
Datong Faiveley Coupler System	1,595	–
Faiveley Transport Witten	n.a.	n.a.
Faiveley Transport Leipzig	1,950,000	2,470,000
Nowe	26,597	23,133
Faiveley Transport India	n.a.	n.a.
Faiveley Transport Lekov	2,643,501	2,746,909
Faiveley Transport Italia	202,798	223,105
Faiveley Transport Ibérica	495,540	–
Faiveley Transport Amiens	1,669,335	2,267,896
Faiveley Transport NSF	302,440	613,988
Faiveley Transport Tours	7,161,111	9,171,830
Faiveley Transport Gennevilliers	3,422,103	5,248,977
Faiveley Transport Nordic	n.a.	n.a.
Faiveley Transport Do Brasil	n.a.	n.a.
Faiveley Transport Australia	n.a.	n.a.
Faiveley Transport Tamworth	483,901	–
Faiveley Transport Birkenhead	1,481,069	–
Ellcon National Inc./Amsted Faiveley	8,200	–
Faiveley Transport Tresmonice	n.a.	n.a.

We note an improvement in gas costs. French and Italian sites have optimised their gas costs by using updated models of heaters. Consumption statements demonstrate the efficiency of such measures. A decrease in gas costs was also noted at other Group sites. Winter was relatively mild in Europe, except at the end of the season, which may have caused an increase in consumption over the last months of the financial year.

• Electricity consumption at the main industrial sites during the financial year ending 31 March 2012 (in KWh)

Entity	2011/2012	2010/2011
Shanghai Faiveley Railway Technology	4,050,000	3,509,000
Shijiazhuang Jiaxiang Precision Machinery	702,940	726,760
Qingdao Faiveley SRI Rail Brake	111	115
Datong Faiveley Couplers System	12,820	–
Faiveley Transport Witten	3,264,080	3,621,034
Faiveley Transport Leipzig	1,445,000	1,550,500
Nowe	19,829	30,581
Faiveley Transport India	1,250,737	1,149,551
Faiveley Transport Lekov	1,320,139	1,387,636
Faiveley Transport Italia	1,991,187	1,840,960
Faiveley Transport Ibérica	1,452,768	1,817,805
Faiveley Transport Amiens	1,696,375	2,284,168
Faiveley Transport NSF	298,333	154,159
Faiveley Transport Tours	4,704,053	4,886,504
Faiveley Transport Gennevilliers	2,071,839	2,382,333
Faiveley Transport Nordic	2,009,000	2,061,000
Faiveley Transport Do Brazil	311,820	311,820
Faiveley Transport Australia	493,141	237,327
Faiveley Transport Tamworth	237,370	140,639
Faiveley Transport Birkenhead	843,600	–
Faiveley Transport Tresmonice	4,285	4,600
Ellcon National Inc/Amsted Faiveley	5,800,000	5,470,000

The general trend noted within the major production units is the stability of electricity consumption, despite a cold end to the winter in Europe. A significant decrease in consumption was however reported in Faiveley Transport Iberica and Faiveley Transport Witten. European sites have improved their lighting by installing energy saving light bulbs and by upgrading their electric heating systems. This year, the emphasis was put on better management of the settings of air conditioning devices, with high and low temperatures capped to save on this source of energy.

• **Water consumption at the main industrial sites during the financial year ending 31 March 2012 (in m^3)**

Entity	2011/2012	2010/2011
Shanghai Faiveley Railway Technology	48,450	35,200
Shijiazhuang Jiaxiang Precision Machinery	3,916	3,989
Qingdao Faiveley SRI Rail Brake	660	660
Datong Faiveley Coupler System	201	123
Faiveley Transport Leipzig	2,984	2,776
Faiveley Transport Witten	–	–
Faiveley Transport Leipzig	2,984	–
Nowe	107	50
Faiveley Transport India	3,748	4,345
Faiveley Transport Lekov	3,967	4,269
Faiveley Transport Italia	3,912	3,195
Faiveley Transport Iberica	2,094	1,624
Faiveley Transport NSF	667	467
Faiveley Transport Amiens	1,892	2,193
Faiveley Transport Tours	5,994	7,500
Faiveley Transport Gennevilliers	4,646	13,002
Faiveley Transport Nordic	1,657	1,639
Faiveley Transport Do Brazil	1,468	1,468
Ellcon National Inc./ Amsted Faiveley	4,159	2,847
Faiveley Transport Australia	–	389
Faiveley Transport Tamworth	728	1,295
Faiveley Transport Birkenhead	2,200	1,834
Faiveley Transport Tresmonice	24	20

The overall trend was for stability or a moderate increase in water consumption at the various industrial sites, except for the Faiveley Transport Gennevilliers and Faiveley Transport Tours sites, which have implemented a number of initiatives that resulted in a decrease in consumption compared to the previous financial year.

Leak detection devices and leak-proof safety systems have been widely implemented at the sites. The doubling of the US subsidiary's consumption was due to the recovery in freight following the creation of the joint venture with US company Amsted Rail.

3.4. EXPENSES INCURRED AS PART OF THE POLICY OF PREVENTING ENVIRONMENTAL RISKS

Expenses incurred by Group subsidiaries to prevent the consequences of their industrial operations to the environment are steadily increasing.

For instance, the following subsidiaries incurred the following expenses:

- Faiveley Transport Tours: €127 thousand for waste processing, €32 thousand for air emission measurement and analysis, €24 thousand for fire detection and flood barriers;
- Faiveley Transport Amiens: €93 thousand in particular for waste processing;
- Faiveley Transport Iberica: €87 thousand in filters to prevent air pollution;
- Faiveley Transport Italia: €1 thousand expense (research costs, calculation of air emissions and waste water treatment cost);
- Faiveley Transport India: €3 thousand industrial investment for the treatment of waters;
- Faiveley Transport Witten: €85 thousand;
- Faiveley Transport Leipzig: €40 thousand;
- Shanghai Faiveley Railway Technology: €20 thousand for the treatment of dust and carbon filters for the painting process;
- Shijiazhuang Jiaxiang: €13 thousand.

Upon consideration of the report presented to you by the Statutory Auditors on this subject, your Management Board invites you to adopt the resolutions submitted to you for a vote, the text of which appears in appendix 5 to the present report.

APPENDICES TO THE MANAGEMENT REPORT

- **Appendix 1:** Information on senior executives' remuneration
- **Appendix 2:** Internal regulations of the Supervisory Board
- **Appendix 3:** 5-year financial results
- **Appendix 4:** Chairman of the Supervisory Board's report on the operation of the Supervisory Board and on internal control within Faiveley Transport
- **Appendix 5:** Draft resolutions submitted for approval by the General Meeting
- **Appendix 6:** Summary table of delegations granted to the Management Board by the General Meeting to make capital increases

FAIVELEY TRANSPORT CONSOLIDATED FINANCIAL STATEMENTS

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At 31 March 2012

I. CONSOLIDATED BALANCE SHEET

ASSETS (€ thousands)	Notes	31 March 2012 Net IFRS	31 March 2011 Net IFRS
SUBSCRIBED UNCALLED SHARE CAPITAL (I)			
Goodwill	E.1	**648,981**	**562,028**
Intangible assets	E.2		
Other		40,057	44,931
Property, plant and equipment	E.3		
Land		5,848	5,311
Buildings		25,662	24,359
Plant and machinery		27,436	23,666
Other		9,966	10,170
Financial investments	E.4		
Shareholdings in unconsolidated subsidiaries		245	245
Shareholdings in associates		–	–
Other non-current financial investments		5,538	4,700
Deferred tax assets	E.5	**43,598**	**29,848**
TOTAL NON-CURRENT ASSETS (II)		**807,331**	**705,258**
Inventories	E.6	144,000	133,882
Work-in-progress on long term contracts	E.7	91,048	70,145
Advances and prepayments received		3,811	5,187
Trade receivables	E.8.1	179,402	183,724
Other current assets	E.8.2	18,515	20,990
Taxation receivable		11,048	6,999
Current financial assets	E.9	9,328	12,618
Short-term investments	E.10	41,080	44,925
Cash	E.10	169,166	153,457
TOTAL CURRENT ASSETS (III)		**667,398**	**631,927**
TOTAL ASSETS (I + II + III)		**1,474,729**	**1,337,185**

The attached notes are an integral part of the consolidated financial statements.

EQUITY AND LIABILITIES (€ thousands)	Notes	31 March 2012 IFRS	31 March 2011 IFRS
Shareholders' equity			
Share capital		14,187	13,942
Share premium		86,488	74,683
Translation differences		(198)	(3,396)
Consolidated reserves		326,238	266,715
Net profit for the period		47,428	75,683
Equity attributable to owners of parent company equity		**474,143**	**427,627**
Minority interests			
Share of subsidiaries' equity		27,362	20,914
Share of subsidiaries' profit for the period		3,640	4,734
Total minority interests		**31,002**	**25,648**
TOTAL CONSOLIDATED EQUITY (I)	**E.11**	**505,145**	**453,275**
Provisions for non-current liabilities and charges	E.12.1 & E.12.2	36,213	35,529
Deferred tax liabilities	E.5	22,090	17,508
Non-current borrowings and financial debt	E.13	352,865	318,516
TOTAL NON-CURRENT LIABILITIES (II)		**411,168**	**371,553**
Current provisions for liabilities and charges	E.12.3	80,353	72,138
Current borrowings and financial debt	E.13	95,420	75,236
Advances and prepayments received		124,674	112,934
Current liabilities	E.15	245,444	237,360
Tax payable		12,525	14,689
TOTAL CURRENT LIABILITIES (III)		**558,416**	**512,357**
TOTAL EQUITY AND LIABILITIES (I + II + III)		**1,474,729**	**1,337,185**

The attached notes are an integral part of the consolidated financial statements.

II. CONSOLIDATED INCOME STATEMENT

(€ thousands)	Notes	31 March 2012 IFRS	31 March 2011 IFRS
Sales	**E.18**	**900,523**	**913,872**
Cost of sales	E.19	(666,722)	(652,404)
Gross profit		**233,801**	**261,468**
Administrative costs		(66,607)	(65,564)
Sales and marketing costs		(52,010)	(50,236)
Research and development costs		(11,111)	(11,638)
Other operating income	E.20	2,687	2,489
Other operating costs	E.20	(12,071)	(6,737)
Profit from recurring operations		**94,689**	**129,782**
Restructuring costs		(1,213)	(2,641)
Gain/(Loss) on disposal of non current assets	E.21	(204)	(475)
Other non-operating income/(expenses)		–	–
OPERATING PROFIT		**93,272**	**126,666**
Amortisation, depreciation and provision charges included in operating profit		14,947	15,503
Operating profit before amortisation and depreciation charges		**108,219**	**142,169**
Net cost of financial debt		(10,700)	(10,778)
Other finance income		14,330	25,395
Other finance costs		(18,815)	(28,041)
NET FINANCE COST	**E.22**	**(15,185)**	**(13,425)**
PROFIT BEFORE TAX		**78,087**	**113,241**
Income tax	E.23	(26,912)	(32,096)
PROFIT FOR THE YEAR FROM CONSOLIDATED ENTITIES		**51,175**	**81,145**
Share of profit from associates		–	–
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**51,175**	**81,145**
Profit/(loss) for the period of discontinued activities	E.23	–	–
PROFIT FOR THE YEAR FROM CONSOLIDATED ENTITIES		**51,175**	**81,145**
Minority interests		3,747	5,462
NET PROFIT - GROUP SHARE		**47,428**	**75,683**
Number of shares		**14,012,090**	**13,941,934**
Earnings per share, in €			
Earnings per share		3.38	5.43
Diluted earnings per share		3.38	5.43
Net earnings per share, in € - continuing operations:			
Earnings per share		3.38	5.43
Diluted earnings per share		3.38	5.43
Net earnings per share, in € - discontinued operations:			
Earnings per share		–	–
Diluted earnings per share		–	–

The calculation of net earnings per share takes account of the deduction of all treasury shares held by Faiveley Transport, being a total of 427,528 shares at 31 March 2012 and 462,777 au 31 March 2011.

The attached notes are an integral part of the consolidated financial statements.

III. STATEMENT OF COMPREHENSIVE INCOME

(€ thousands)	2011/2012 FY	2010/2011 FY
NET PROFIT OF THE YEAR	**51,175**	**81,145**
Translation adjustment	5,443	9,751
Financial assets held for sale	–	–
Gains (losses) on financial hedging instruments	(3,064)	4,106
Actuarial differences	–	–
Share of gain/(losses) recorded directly in equity	–	–
Movement in non-current asset revaluation reserve	–	–
Other adjustments	(210)	169
Income tax on items of other comprehensive income	1,066	–
ITEMS OF OTHER COMPREHENSIVE INCOME, AFTER TAX	**3,235**	**14,026**
TOTAL COMPREHENSIVE INCOME	**54,410**	**95,171**
Of which:		
• **Group share**	**48,418**	**90,726**
• attributable to minority interests	5,992	4,445

At 31 March 2011, stock option plans reserved for employees were classified under items of other comprehensive income. A separate line has been created for these in the consolidated statement of changes in equity at 31 March 2012 and data at 31 March 2011 has been restated accordingly.

IV. CONSOLIDATED CASH FLOW STATEMENT

(€ thousands)	Notes	31 March 2012 IFRS	31 March 2011 IFRS
Cash flow from operating activities			
Net profit for the period - Group share		47,428	75,683
Minority interests		3,747	5,462
Adjustments for non-cash items			
• Depreciation and amortisation charges		14,947	15,504
• Asset impairment (including goodwill)		–	–
• Net movements in provisions		5,783	38
• Deferred tax		(2,849)	937
• Net loss/(gain) on asset disposal		810	475
• Grant income		(526)	(338)
• Share of profit/(loss) from associates		–	–
• Dilution profit		–	–
SELF-FINANCING CAPACITY		69,340	97,761
Changes in working capital requirement		**(4,030)**	**(4,106)**
Decrease (+) increase (-) of inventories		(1,417)	(5)
Decrease (+) increase (-) of trade and other receivables		1,507	(27,309)
Increase (+) decrease (-) of trade and other payables		2,431	23,019
Increase (+) decrease (-) of income tax		(6,551)	189
NET CASH GENERATED FROM OPERATING ACTIVITIES		65,310	93,655
Cash flow from investing activities			
Purchase of intangible assets		(7,007)	(7,671)
Purchase of property, plant and equipment		(10,102)	(10,233)
Proceeds from grants		46	–
Proceeds from disposal of PPE and intangible assets		189	155
Purchase of financial assets		(1,001)	(1,849)
Proceeds from sale of financial assets		1,159	665
Cash and cash equivalent of acquired subsidiaries		(77,608)	(5,001)
Cash and cash equivalent of disposed subsidiaries		–	–
NET CASH USED IN INVESTING ACTIVITIES		(94,324)	(23,934)
Proceeds from new share issues		–	–
Buyback of treasury shares		932	(14,235)
Movement in share and merger premiums		–	–
Other movements in equity (cash-flow hedge)		(104)	5,527
Cash dividends paid to parent company shareholders		(16,738)	(17,024)
Cash dividends paid to minority interests		(1,356)	–
Proceeds from new borrowings		101,418	1,705
Repayment of borrowings		(43,711)	(55,584)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		40,441	(79,611)
Net foreign exchange difference		1,169	13,358
Impact of increase/(decrease) in value of cash equivalents		1,516	(2,483)
Net increase/(decrease) in total cash and cash equivalents		**14,112**	**985**
Cash and cash equivalents at start of year		192,711	191,726
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	E.10	206,823	192,711

V. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(€ thousands)	Share capital	Share premium	Reserves	Translation differences	Profit for the period	Total Group share	Minority interests	Total
BALANCE AT 31 MARCH 2010	**14,121**	**88,739**	**208,411**	**(14,417)**	**71,119**	**367,973**	**8,693**	**376,666**
Allocation of 2009/10 net profit	–	–	71,119	–	(71,119)	–	–	–
Dividends paid	–	–	(16,899)	–	–	(16,899)	(125)	(17,024)
Issue of shares (stock options)	118	3,542	–	–	–	3,660	–	3,660
Treasury shares	(297)	(17,598)	–	–	–	(17,895)	–	(17,895)
Stock option plans reserved for employees (value of services provided by staff)	–	–	1,049	–	–	1,049	–	1,049
Changes in Group structure	–	–	(987)	–	–	(987)	12,635	11,648
Net profit for the year	–	–	–	–	*75,683*	*75,683*	*5,462*	*81,145*
Items of other comprehensive income	–	–	*4,022*	*11,021*	–	*15,043*	*(1,017)*	*14,026*
Total income and expense recognised	**–**	**–**	**4,022**	**11,021**	**75,683**	**90,726**	**4,445**	**95,171**
BALANCE AT 31 MARCH 2011	**13,942**	**74,683**	**266,715**	**(3,396)**	**75,683**	**427,627**	**25,648**	**453,275**
Allocation of 2010/11 net profit	–	–	75,683	–	(75,683)	–	–	–
Dividends paid	–	–	(16,738)	–	–	(16,738)	(1,356)	(18,094)
Capital increase	209	10,909	–	–	–	11,118	–	11,118
Issue of shares (stock options)	41	1,215	–	–	–	1,256	–	1,256
Treasury shares	(5)	(319)	–	–	–	(324)	–	(324)
Stock option plans reserved for employees (value of services provided by staff)	–	–	1,832	–	–	1,832	–	1,832
Changes in Group structure	–	–	954	–	–	954	718	1,672
Net profit for the period	–	–	–	–	*47,428*	*47,428*	*3,747*	*51,175*
Items of other comprehensive income	–	–	*(2,208)*	*3,198*	–	*990*	*2,245*	*3,235*
Total income and expense recognised	**–**	**–**	**(2,208)**	**3,198**	**47,428**	**48,418**	**5,992**	**54,410**
BALANCE AT 31 MARCH 2012	**14,187**	**86,488**	**326,238**	**(198)**	**47,428**	**474,143**	**31,002**	**505,145**

At 31 March 2012, Faiveley Transport held 427,528 of its own shares, being 2.93% of share capital.

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. Accounting information

Faiveley Transport is a French limited liability company (société anonyme) with a Management Board and a Supervisory Board. At 31 March 2012, its registered office was located at:
Immeuble le Delage, Hall Parc, Bâtiment 6A, 3 rue du 19 mars 1962
92230 - Gennevilliers.

The consolidated financial statements are prepared by the Management Board and submitted for approval to the shareholders at the General Meeting.

The financial statements for 2011/2012 were approved by the Management Board at its meeting on 6 June 2012. They were presented to and reviewed by the Supervisory Board at its meeting on 6 June 2012. They will be submitted for the approval of the Shareholders' General Meeting on 14 September 2012.

The financial statements have been prepared on the basis that the Faiveley Transport Group operates as a going concern.

The Group's functional and presentation currency is the Euro. Figures are expressed in thousands of Euros unless indicated otherwise.

B. Highlights

1. SIGNIFICANT EVENTS

- Changes in Group governance:
  On 1 April 2011, after Robert Joyeux resigned from his duties as Chief Executive Officer and Chairman of the Management Board of Faiveley Transport on 31 March 2011, Thierry Barel, previously Deputy Chief Executive Officer, was appointed Chief Executive Officer and Chairman of the Management Board. On the same day, Guillaume Bouhours was appointed as a member of the Management Board.

- Change in Faiveley Transport's share capital:
  As part of the acquisition of the US-based Graham-White Manufacturing Co., finalised on 3 February 2012, 209,441 new Faiveley Transport shares, representing 1.45% of the Company's share capital, have been issued to Graham-White Manufacturing Co.'s former shareholders.

  The share capital of Faiveley Transport now amounts to €14,614,152.

- On 27 July 2011, Faiveley Transport signed an amendment to the syndicated credit facility set up in December 2008. The amendment was granted unanimously by the nine contributing banks, which thus confirmed their confidence in the Group's credit rating.

  The total amount of funding remained unchanged, including an amortising term loan of €343 million (balance at 30 June 2011) and a revolving credit facility of €49 million.

  The main amendments included:
  - a 2.5-year extension of the loan maturity to 23 June 2016 instead of 23 December 2013,
  - a more favourable amortisation profile, with mandatory annual instalments of €35 million, compared to €49 million previously,
  - new covenants providing additional flexibility, with a leverage ratio (Net Debt/EBITDA) not exceeding 2.5x and a gearing ratio (Net Debt/Equity) not exceeding 150%,
  - the option of using the revolving credit facility for merger and acquisition transactions,
  - the release of pledging on shares of operating subsidiaries.

  This refinancing transaction, carried out at favourable financial conditions, provides the Group with increased financial flexibility for the next five years and with the necessary resources to continue to expand through both organic growth and acquisitions.

  During the second half of the year, the Group put several financing facilities into place:
  - a €20 million revolving facility, maturing on 18 November 2016, for the Group's general requirements or potential acquisitions;
  - a €15 million revolving facility maturing on 23 June 2016, for the Group's general requirements or potential acquisitions, to be repaid in annual instalments of €1.5 million from 23 December 2012;
  - a €30 million bridge loan to finance the acquisition of Graham-White Manufacturing Co., maturing on 14 January 2013 unless the acquisition is refinanced prior to that date. Since refinancing took place on 12 April 2012 (see below Note E.26), this loan was repaid on 13 April 2012.

- On 29 August, Wabtec Corporation appealed against the verdict of a jury of the New York Court, which ordered this company to pay compensatory damages of USD 18.1 million plus interest, for a total of USD 19.6 million, to Faiveley Transport USA, Faiveley Transport Nordic, Faiveley Transport Amiens and Ellcon National, for trade secret misappropriation, unfair competition, and unjust enrichment. At the same time, Faiveley Transport also appealed against the verdict of the judge of the New York Court, who overruled Faiveley's claim for punitive damages.

2. PLANS TO ALLOCATE SHARE PURCHASE/ SUBSCRIPTION OPTIONS AND FREE SHARES

During the financial year, a new free share allocation plan was established for the benefit of employees.

- **Free share allocation plan of 14 September 2011**

The Combined General Meeting of 14 September 2011 delegated the Management Board powers for the allocation of ordinary shares of the Company free of charge, either new or already issued, within the limit of 1% of the share capital of the Company on the day of the said General Meeting.

At its meeting held on 4 January 2012, the Management Board decided to implement this delegation and to allocate free shares.

This decision was made as part of an employee shareholding plan aimed at a broader population of executives. The programme provides that an employee holding shares in the Company in a personal capacity will be granted two free shares for every share held, not exceeding a limit set for each level of management.

At its meeting held on 5 March 2012, the Management Board established the final list of beneficiaries and the number of free shares to be granted. A total of 79,224 shares are thus to be granted to 151 beneficiaries. The allocation of the shares will be final at the end of a two-year vesting period, or four years for non-French residents.

Thierry Barel and Guillaume Bouhours, both beneficiaries of free shares under this plan, are subject to an additional retention condition in their capacity as executive officers. They must retain at least 50% of shares granted to them by the Management Board under this new plan after the end of the vesting period defined by plan regulations. This rule will apply as long as they do not hold shares of the Company, acquired in the various plans to grant stock options or free shares of the Company, worth at least the equivalent of one year's net salary. Share purchase, share subscription and free share allocation plans granted in previous years and still in force are detailed in Note E.11.1.

3. CONSOLIDATION SCOPE

- In the fourth quarter of 2011/2012, Faiveley Transport announced the acquisition of 100% of US-based Graham-White Manufacturing Co. and its subsidiaries. Graham-White Manufacturing Co. employs more than 300 people and operates six facilities across the United States, with a central manufacturing site located in Salem, Virginia. The company generates annual sales in excess of USD 70 million and is specialised in the design and manufacture of compressed air drying technology and brake components for the locomotive and railway freight market.
  With this acquisition, Faiveley Transport has strengthened its position in the US market, which opens up significant new opportunities thanks to an enlarged product range and complementary customer bases.
  The cost of this acquisition was USD 118.5 million, including USD 14.6 million (i.e. €11.1 million) as newly-issued Faiveley Transport shares, and generated goodwill of €74.2 million on the transaction date.
  The accounting implications of this transaction are detailed in Note D. Changes in consolidation scope.

- On 1 April 2011, two Group entities changed their functional currency. Faiveley Transport Malmö now holds its accounts in Euros and Faiveley Transport Canada in US Dollars.

C. Consolidation principles and methods

1. BASIS OF PREPARATION

In application of regulation 1606/2002 of the European Union (EU), the consolidated financial statements of the Faiveley Transport Group are prepared in accordance with IFRS (International Financial Reporting Standards), as adopted by the European Union.

1.1. Changes in accounting policies due to new standards and interpretations of mandatory application for interim periods and financial years starting on or after 1 April 2011

The Group's financial statements were not affected by new standards or interpretations, revised or amended, of mandatory application on or after 1 April 2011 in the European Union.

1.2. New standards and interpretation whose application is mandatory

- IFRS improvement amendments (May 2010): IAS 1, IAS 21, IAS 28, IAS 31, IAS 32, IAS 34, IAS 39, IFRS 3 and IFRS 7;
- Simplification of disclosures by state-controlled entities and clarification of the definition of a related party (IAS 24 revised);
- Amendment to Prepayments of a minimum funding requirement (amendment to IFRIC 14);
- Extinguishing financial liabilities with equity instruments (IFRIC 19).

The impact of these standards in the Group's consolidated financial statements at 31 March 2012 is not material.

1.3. New standards and interpretation whose application is not yet mandatory

The Group did not opt for the early application of the following texts, already published by the IASB and approved by the European Union, in its consolidated financial statements at 31 March 2012:
- Presentation of items of other comprehensive income (amendments to IAS 1);
- Financial instruments - disclosures (amendments to IFRS 7).

Texts not yet adopted by the European Union, the early application of which is not permitted:
- Amendment to deferred taxes (IAS 12);
- Employee benefits (IAS 19 revised);
- Separate financial statements (IAS 27 amended);
- Investments in associates and joint ventures (IAS 28 revised);
- Financial instruments: classification and measurement of financial assets (IFRS 9);
- Consolidated financial statements (IFRS 10);
- Joint arrangements (IFRS 11);
- Disclosure of interests in other entities (IFRS 12);
- Fair value measurement (IFRS 13).

The Group considers that the impact of the application of these provisions cannot be determined with sufficient accuracy at this stage and is currently analysing this impact.

2. CONSOLIDATION SCOPE AND METHODS

Companies over which the Faiveley Transport Group directly or indirectly exercises exclusive control are consolidated using the full consolidation method. In accordance with IAS 27, exclusive control is deemed to be present when more than one half of the Company's voting rights are held or when control is exercised through any other means.

Companies over which the Faiveley Transport Group exercises joint control are consolidated using the proportional consolidation method.

Companies over which the Faiveley Transport Group exercises significant influence over financial and operational policies are accounted for using the equity method. Significant influence is presumed when the Group holds more than 20% of the voting rights of a company.

Acquisitions or disposals arising during the financial year are reflected in the consolidated financial statements from the date on which effective control is transferred, unless the impact is not material to the income statement in the case of acquisitions carried out at the end of the financial year.

Intra-group balances and transactions are eliminated for all consolidated companies.

Faiveley Transport Group companies that are consolidated are listed in Note G.1. Note G.2 lists companies that are not consolidated due to their insignificant impact on the Faiveley Transport Group's financial statements.

3. USE OF ESTIMATES

In order to be able to prepare consolidated financial statements that comply with IFRS, Financial Management must make certain estimates and use assumptions that it considers realistic and reasonable. These estimates and assumptions affect the carrying value of the assets, liabilities, equity and results, and any contingent assets and liabilities, as presented at the balance sheet date. Finance Management regularly reviews its estimates on the basis of the information available to it. When events and circumstances are not in line with expectations, actual results may differ from such estimates.

The main accounting methods whose application necessitates the use of estimates relate to the following items:

3.1. Recognition of the margin on long-term building and service contracts and related provisions (see § C-6.1)

Revenue from long-term building and service contracts is recognised in proportion to the stage of completion of the contracts (see C-6 below). Project reviews are organised on a regular basis so that the stage of completion and finalisation of the contract can be monitored. If the project review identifies a negative gross margin, a provision is immediately raised in respect of the loss relating to the work not yet carried out.

The total estimated income and expenses in respect of the contract reflect the best estimate of the future benefits and obligations under the contract. The assumptions used to determine the current and future obligations take into account technological, commercial and contractual constraints measured on a contract-by contract basis.

The obligations under building contracts may result in penalties for delays in a contract's implementation schedule or an unexpected cost increase due to amendments to the project, a supplier's or subcontractor's failure to comply with its obligations or delays caused by unforeseen events or circumstances. Similarly, warranty obligations are affected by product failure rates, equipment wear and tear and the cost of actions needed to return to normal service.

Although the Group measures risks on a contract by contract basis, the actual costs resulting from the obligations associated with a contract may prove to be greater than the amount initially estimated. It may therefore be necessary to re-estimate the costs to completion when a contract is still in progress or to re-estimate provisions when a contract is completed.

3.2. Measurement of deferred tax assets (see § C-16)

The determination of the carrying values of deferred tax assets and liabilities and the amount of deferred tax assets to be recognised requires Finance Management to exercise its judgement as to the level of future taxable profits to be taken into consideration.

3.3. Measurement of assets and liabilities in respect of retirement and similar benefits (see § C-15.1)

The measurement by the Group of the assets and liabilities relating to defined benefit schemes requires the use of statistical data and other parameters used to predict future trends. Such parameters include discount rate, expected return on plan assets, salary increase rate, staff turnover rate and mortality rate. When circumstances where actuarial assumptions prove to be significantly different from actual data subsequently observed, this could result in a substantial amendment to the charge for retirement and similar benefits, actuarial gains and losses and assets and liabilities stated in the balance sheet relating to these commitments.

3.4. Measurement of property, plant and equipment and intangible assets (see § C-9)

Goodwill, including intangible assets with an indefinite useful life, is tested for impairment each year on 31 March or more frequently if there are indications of impairment. The discounted future cash flow model used to determine the fair value of the cash generating units utilises a certain number of parameters including estimated future cash flows, discount rates and other variables, and consequently requires the exercise of judgment to a significant degree.

The assumptions used to carry out impairment tests are the same for property, plant and equipment and intangible assets. Any future deterioration in market conditions or the achievement of poor operating performances could result in the Group being unable to recover the current carrying value of such assets.

3.5. Measurement of financial investments

Details of the method used to measure financial investments are provided in § C-10.3.

3.6. Inventories and work-in-progress (see § C-12)

Inventories and work-in-progress are measured at the lower of cost and net realisable value. Writedowns are calculated on the basis of an analysis of foreseeable trends in demand, technology and market conditions, the aim of which is to identify inventories and work-in-progress that are obsolete or surplus to requirements. If

market conditions worsen to a greater degree than was forecast, additional writedowns of inventories and work-in-progress may prove necessary.

3.7. Stock-options and free shares

Share subscription and/or purchase options as well as free shares granted to certain senior executives and employees of the Group are recognised in accordance with IFRS 2.

Options are measured at the allocation date. The fair value of options is a function of the expected life, exercise price, current price of underlying shares, expected volatility and share price. The Group uses the Black & Scholes mathematical model.

The fair value of free shares is estimated on the allocation date, specifically based on their expected life, current price of the underlying shares, expected volatility and share price and takes into account the terms and conditions attached to the share allocation.

This value is recognised as personnel cost between the date of grant and the end of the vesting period and offset under equity.

3.8. General provisions

Details of the method used to measure other provisions for liabilities and charges are provided in C-15.2.

4. TRANSLATION METHOD

The consolidated financial statements are presented in Euro, the Group's reporting currency.

4.1. Foreign currency-denominated transactions

Transactions not denominated in the functional currency are translated at the exchange rate on the date when the transaction was first recorded.

At the balance sheet date:
- foreign currency-denominated monetary items must be converted at the foreign exchange rate on the balance sheet date;
- foreign currency-denominated non-monetary items valued at historical cost must be converted at the foreign exchange rate on the transaction date; and
- foreign currency-denominated non-monetary items valued at fair value must be converted using the foreign exchange rate on the date fair value was determined.

4.2. Foreign currency-denominated subsidiary financial statements

Foreign currency-denominated subsidiary financial statements are prepared in the currency that is most representative of their economic environment. This currency is deemed to be their functional currency pursuant to IAS 21.

Foreign currency-denominated subsidiary financial statements were translated into Euros using the following exchange rates:
- closing rate for all balance sheet items, with the exception of the components of equity which continue to be translated at historical exchange rates (translation rates used on the date the subsidiary was acquired by the Group);
- average rate for the period for income statement and cash flow statement items.

Translation differences arising in respect of the profit or loss and shareholders' equity are recognised directly in shareholders' equity under the heading "Translation differences" in the case of the Group's share, with the portion attributable to third parties being recorded in minority interests.

On the disposal of a foreign subsidiary, the translation differences relating to such disposal and recognised in shareholders' equity after 1 April 2004 are accounted for in the income statement.

– Translation exchange rates used in the consolidation

	Closing rate		Average rate	
(In Euro)	31 March 2012	31 March 2011	31 March 2012	31 March 2011
Thai Baht	0.024285	0.023269	0.023728	0.024318
Swedish Krona	0.113052	0.111946	0.110802	0.107810
Czech Koruna	0.040437	0.040745	0.040377	0.040116
US Dollar	0.748727	0.703878	0.725834	0.756511
Australian Dollar	0.779059	0.728014	0.758366	0.713985
Hong Kong Dollar	0.096427	0.090449	0.093317	0.097297
Singapore Dollar	0.596125	0.558597	0.579050	0.568693
Taiwan Dollar	0.025421	0.024068	0.024664	0.024487
Swiss Franc	0.830220	0.768965	0.823621	0.747562
Pound Sterling	1.199185	1.131606	1.158648	1.176951
Iranian Rial	0.000061	0.000069	0.000067	0.000073
Brazilian Real	0.411134	0.433689	0.428203	0.438623
Russian Rouble	0.025449	0.024823	0.024530	0.025032
Indian Rupee	0.015183	0.015787	0.015183	0.016598
Korean Won	0.000654	0.000643	0.000654	0.000658
Chinese Yuan	0.118922	0.107485	0.113450	0.112818
Polish Zloty	0.238614	0.249339	0.238614	0.251001

5. BALANCE SHEET DATE

All companies are consolidated on the basis of financial statements drawn up at 31 March 2012.

6. INCOME STATEMENT PRESENTATION

6.1. Sales revenue and cost of sales recognition

In accordance with IAS 18 20, sales arising from contracts of less than one year in duration, which primarily relate to the sale of spare parts (Customer Services), are recorded upon transfer of title, which is generally at the time of delivery to the customer. The same applies to short-term service provisions, carried out on from time to time.

For services provided over a longer period, sales are recognised based on the percentage of completion of services.

Sales arising from contracts of more than one year in duration are recognised using the percentage of completion method in accordance with IAS 11. Percentage of completion is measured on the basis of relating actual sales billed (delivered) to the total contract sales value or by relating the actual costs incurred (work carried out) to the total costs estimated for the contract.

The total estimated cost of completion includes direct costs (such as raw materials, labour and engineering) relating to the contracts. This includes costs already committed and future costs, including warranty costs and costs specific to the probable risks. Provision charges for losses to completion and other provisions on contracts are recorded to cost of sales in the income statement if, during the review of the contracts, it seems probable that the costs to which they relate will arise.

All changes in the conditions of contract fulfilment and all changes to margins at completion are recorded as cost of sales in the income statement in the period in which they are identified.

Warranty provisions are valued based on contract terms and an assessment of risks based on sector knowledge.

6.2. Profit from recurring operations

This is the profit before restructuring costs, gains and losses on disposals of intangible assets and property, plant and equipment and exceptional accounting adjustments.

6.3. Finance income and costs

Finance income and costs include:
- interest income and expense on the consolidated net debt, which consists of borrowings, other financial liabilities (including liabilities in respect of finance leases) and cash and cash equivalents;
- dividends received from unconsolidated equity investments;
- the effect of discounting financial provisions;
- changes in financial instruments;
- foreign exchange gains and losses on financial transactions.

6.4. Income tax

The Group calculates its income tax in accordance with tax laws applicable in the country where profits are taxable.

The current tax liability is calculated using the tax laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Group's subsidiaries and associates operate and generate taxable profits. Management periodically assesses

tax positions taken in light of applicable tax regulations, where the latter are subject to interpretation, and determines, if applicable, the amounts it expects to pay to tax authorities.

Temporary differences between the carrying value of assets and liabilities and their tax base, tax losses carried forward and unused tax credits are identified in each taxable entity (or tax group, if applicable). The corresponding deferred tax is calculated using the tax rates that have been enacted or substantively enacted for the financial year during which assets will be realised or liabilities settled (see § C-16).

Pursuant to the CNC communication of 14 January 2010 relating to the accounting treatment of the component based on value added (CVAE) of the CET tax (contribution économique territoriale) introduced in France by the 2010 Finance Act of 31 December 2009, following an analysis carried out by the Group and in light of its specific features, it was decided to treat the value-added based CVAE as income tax, in order to remain consistent with the classification of similar taxes in Germany and Italy (Gewerbesteuer and IRAP, respectively). This decision was also based on a 2006 proposal by the IFRIC that specified that the term of "taxable profit" implies that a net amount should be considered, rather than a gross amount, without necessarily being identical to the accounting profit.

Pursuant to IAS 12, the option selected involves the recognition of deferred taxes, at each balance sheet date, on temporary differences for:

- assets that produce economic benefits subject to the CVAE tax, whereas the consumption of added value is not deductible from added value: this is the net carrying value of property, plant and equipment and intangible assets eligible for depreciation and amortisation at 31 December;
- asset impairments and provisions that may not be deducted from the CVAE but that relate to expenses that will be deducted from the value added at a later date.

As the CVAE tax is deductible for income tax purposes, deferred taxes are recognised at the standard rate for deferred tax assets and liabilities recognised for the CVAE, as described in the previous paragraph.

6.5. Profit or loss from operations held for disposal and discontinued operations

The net of tax profit or loss from discontinued operations as defined by IFRS 5 is presented under a separate heading in the income statement. It includes the net profit or loss of such activities during the year and up to their date of disposal, as well as the net gain or loss on the disposal itself.

6.6. Earnings per share

Basic earnings per share is calculated based on the profit attributable to holders of ordinary shares of the parent company, divided by the weighted average number of ordinary shares outstanding during the financial period. Since the shares of the consolidating entity held by itself are deducted from shareholders' equity, these shares are excluded from the weighted average number of shares in circulation.

Diluted earnings per share is calculated based on the weighted average number of shares outstanding during the financial period, adjusted for the number of shares that would be generated by the exercise of share subscription options as per the conditions of IAS 33.45 and subsequent.

7. INTANGIBLE ASSETS

7.1. Goodwill

On each acquisition, the Group identifies and assesses the fair value of all assets and liabilities acquired, particularly intangible assets and property, plant and equipment, brands, inventories, work-in-progress and all provisions for liabilities and charges.

The unallocated difference between the cost of securities in companies acquired and consolidated and the fair value of assets and liabilities is recorded as goodwill. Where this difference is negative, it is taken directly to the income statement. When this difference is positive, it is recognised in the balance sheet.

In case of the partial acquisition of a company, goodwill will either be recognised based on the percentage of ownership of this new entity or fully consolidated, i.e. taking account of the share attributable to minority interests.

– Acquisitions of minority interests in subsidiaries that are already fully consolidated

Prior to the application of revised IAS 27, the Group had elected to recognise additional goodwill, which corresponds to the difference between the acquisition cost of securities and the additional share in consolidated equity that these securities represented.

Acquisitions of minority interests are now recognised as a deduction from the Group's share of shareholders' equity.

– Accounting treatment of put options on minority interests

Similar to the accounting treatment used for acquisitions of minority interests, the Group elected to use the option to recognise additional goodwill as part of the accounting treatment of put options on minority interests that existed prior to 1 April 2010. Put options granted after revised IFRS 3 and IAS 27 became applicable are recognised as a deduction from equity (see below § 10.6).

7.2. Intangible assets acquired separately or pursuant to a business combination

Intangible assets acquired separately are recorded in the balance sheet at their historical cost.

Intangible assets (primarily brands) resulting from the valuation of assets of acquired companies are recorded in the balance sheet at their fair value, determined generally on the basis of appraisals by external experts when significant in value.

Intangible assets, other than those with indefinite useful lives, are amortised on a straight-line basis over their estimated useful lives, which are as follows:

- Software: straight line basis - 1 to 3 years
- Patents: straight line basis - 5 to 15 years
- Development costs: straight line basis over 3 years.

7.3. Internally-generated intangible assets

Research costs are expensed immediately when incurred.

Development costs on new projects are capitalised if all of the following criteria are strictly met:
- the project is clearly identifiable and its related costs are separately identified and reliably measured;
- the technical feasibility of the project has been demonstrated and the Group has the intent and the financial capability to complete the project and to use or to sell the products derived from this project;
- it is probable that the project will yield future economic benefits for the Group.

Capitalised project development costs are amortised on a straight-line basis over 3 years.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at their acquisition cost or at their fair value when new subsidiaries are acquired. Depreciation is calculated separately for every asset component that has a distinct useful life. The useful lives of the assets concerned are deemed to be as follows:

• Buildings	15 to 25 years.
• Fixtures and fittings	10 years.
• Industrial machinery and equipment	5 to 20 years.
• Tools	3 to 5 years.
• Vehicles	3 to 4 years.
• Office equipment and furniture	3 to 10 years.

• Leases

Assets acquired under finance leases are recorded as assets when the lease agreement transfers substantially all the risks and rewards inherent to ownership of an asset to the Group. At each balance sheet date, a finance lease recognised as an asset gives rise to a depreciation charge (consistent with the depreciation policy applicable to other depreciable assets of the same nature). Lease agreements for which the risks and rewards of ownership are not transferred to the Group are treated as operating leases, with corresponding lease payments expensed on a straight-line basis over the lease term.

9. IMPAIRMENT OF ASSET VALUES

Goodwill and intangible assets with indefinite useful lives are tested for impairment each year.

Intangible assets and property, plant and equipment with finite useful lives are tested for impairment as soon as there is any indication that such assets may have become impaired. Where relevant, a provision for impairment is recognised.

Impairment testing involves comparing the recoverable amount of the asset with its carrying value. Recoverable amount is the higher of fair value less costs to sell and value in use.

Tests are carried out on the basis of Cash Generating Units (CGUs) to which these assets are allocated. A CGU is a consistent group of assets whose continuous utilisation generates cash inflows that are largely independent of cash inflows generated by other groups of assets.

The value in use of a CGU is determined based on the present value of the estimated future cash flows to arise from these assets, within the framework of economic assumptions and operating conditions anticipated by Group executive management. The measurement carried out is based mainly on the Group's three-year plan. Cash flows beyond that timeframe are extrapolated by applying a stable growth rate.

The recoverable amount is the sum of the present value of the cash flows and the present value of the terminal residual value. The discount rate is determined using the sector's weighted average cost of capital.

When this value is less than the carrying value of the CGU, an impairment loss, first allocated to goodwill, is recognised.

In the event of an indication of a recovery in value, this impairment loss may eventually be reversed to the extent that it does not exceed the carrying value of the asset at the same date had it not been subject to a writedown. Impairment losses recorded on goodwill may not be reversed.

10. FINANCIAL ASSETS AND LIABILITIES

Pursuant to IAS 32 and IAS 39, financial assets and liabilities comprise operating receivables and liabilities, financial loans and debts, shareholdings in unconsolidated companies, marketable securities, borrowings and other financial liabilities and derivative financial instruments.

On initial recognition, a financial instrument is valued at fair value, adjusted for issue costs:
- fair value, as defined by the applicable IAS, corresponds as a general rule to transaction value, with exceptions discussed below;
- under the IAS, the term "issue costs" is used to mean all of the ancillary costs directly attributable to the acquisition or implementation of the financial instruments.

In certain specific cases, e.g. loans, borrowings, operating receivables and liabilities which are interest-free or at beneficial rates, fair value does not correspond to the fair value on initial recognition in the balance sheet. In such cases, fair value is calculated by discounting the cash flows associated with the financial instrument, using the market rate increased by a risk premium.

At future balance sheet dates, financial assets and liabilities are recorded at either their amortised cost or fair value depending on the class of assets or liabilities to which they belong.

The accounting treatment of identified financial assets and liabilities is as follows:

10.1. Operating receivables

At each balance sheet date, the Group assesses whether there is an objective indication of impairment of a receivable. If there are objective indications of impairment in respect of assets recognised at amortised cost, the carrying value of the asset is reduced via the use of an impairment account. The amount of the impairment must be recognised in the income statement.

If the amount of the impairment reduces during a subsequent accounting period, and if such reduction can be objectively linked to an event that occurred after the recognition of the impairment, the impairment loss previously recognised must be reversed to the extent that the carrying value of the asset does not exceed the amortised cost on the date the impairment loss is reversed. Any subsequent reversal is recognised in the income statement.

In the case of trade receivables, an impairment loss is recognised when there is an objective indication (such as a probability of the debtor suffering bankruptcy or significant financial difficulties) that the Group will be unable to recover the amounts due in accordance with the contractual terms of the invoice. The carrying value of the trade receivable is reduced via the use of a value adjustment account.

Within the framework of the factoring of trade receivables, an analysis of the risks and rewards relating to the transfer of such receivables must be conducted pursuant to IAS 39 (credit risk and interest rate risk primarily):

- if the risks and rewards are substantially transferred, the receivables are removed from the balance sheet against cash;
- if the risks and rewards are substantially retained, the receivables are maintained on the balance sheet with a corresponding liability being recognised, the transaction being accounted for as a borrowing guaranteed by receivables;
- if the Company has neither transferred nor retained virtually all the risks and rewards and has retained control, the receivables are retained on the balance sheet of the transferor up to the value of the latter's interest in said receivables.

10.2. Financial receivables and loans

These financial instruments are also recorded at their amortised cost. They are subject to valuation tests, which are realised when there is an indication that their recoverable value is less than their carrying value, in accordance with the same principles as those described in Note C.10.1. The impairment loss is recorded in the income statement as are any loss reversals.

10.3. Shareholdings in unconsolidated companies

These financial instruments are classified as assets held for sale. They are unlisted shares for which the fair value cannot be reliably determined and therefore the carrying value at which they are recognised is their acquisition cost.

In the event of an objective indication of impairment of the financial asset (notably a significant and sustained drop in its value), the impairment loss is recognised in the income statement and may not be reversed in a subsequent period other than on the sale of the shareholding concerned.

10.4. Cash, marketable securities and cash equivalents

Cash and marketable securities reflected in the balance sheet include cash balances, bank accounts, term deposits maturing in less than three months and securities that can be traded on official exchanges. These short-term instruments comprise money market funds and certificates of deposit. They are considered by the Group as financial assets held for trading and are valued at their fair value, with any movements in fair value recorded to the income statement.

In the case of highly liquid short-term investments (maturity not exceeding three months), it is reasonable to assume that their fair value is equal to their carrying value (capitalised interest included). Such items are therefore classified as cash equivalents.

10.5. Borrowings and other financial liabilities

Borrowings and other financial liabilities are stated at amortised cost.

10.6. Put options held by minority shareholders in Group subsidiaries

If the put options held by minority shareholders in Group subsidiaries have an impact on the transfer of risks and rewards associated with underlying securities, the put option gives rise to the recognition of a firm and immediate acquisition of the securities, with their payment being deferred.

In accordance with IAS 32, put options are recognised as financial liabilities if they have no impact on the transfer of risks and rewards. The amount reflected in the balance sheet corresponds to the present value of the exercise price of put options, measured according to the discounted future cash flow method. This liability is offset under equity.

Subsequent fair value movements are recognised:

- in equity, for the estimated change in value of the exercise price;
- in net finance expense/(cost), for the reversal of debt discounting.

– Specific case of put options granted before 1 April 2010, i.e. before IFRS 3R and IAS 27R came into force

The difference between the present value of the liability and the carrying value of reclassified minority interests is recognised as "goodwill in progress" as long as the put option has not been exercised or extinguished.

When the put option is exercised, goodwill in progress is reclassified as goodwill.

Subsequent fair value movements are recognised as goodwill in progress and the impact of the reversal of debt discounting is taken to the income statement.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to manage its exposure to movements in interest rates and in the exchange rates of foreign currencies. As part of its hedging policy, the Group uses interest rate swaps and contracts for forward purchases and sales of currencies. The Group may also use caps, floors and options.

11.1. Exchange risk

The Group operates in foreign countries and is therefore exposed to exchange risk as a result of its exposure to a number of currencies. The management of exchange risk is centralised by the parent company's Treasury department and comprises two parts:

- exchange risk management relating to tenders in foreign currencies (uncertain risk);
- exchange risk management relating to commercial contracts (certain risk).

The Group's policy is to hedge all expected future transactions in each major currency.

11.2. Interest rate risk

The Group manages its interest rate cash flow risk through the use of variable rate against fixed rate swaps or caps and tunnels. From an economic point of view, the effect of these interest rate swaps or caps is to convert variable rate borrowings into fixed rate borrowings. The Group may also use structured instruments that do not qualify for hedge accounting.

A detailed description of the exchange and interest rate risks is provided in Note E.14 to the financial statements: "Financial instruments and financial risk management".

11.3. Derivative financial instrument accounting rules

The majority of derivative instruments used by the Group qualify for accounting purposes as hedges if the derivative is eligible for hedge accounting and if the hedging is documented according to the principles of IAS 39. In practice, the derivative financial instruments not qualified as hedging by the Faiveley Transport Group are the following:
- foreign exchange options to cover tenders;
- structured interest rate swaps.

The derivative hedging instruments are recorded in the balance sheet at their fair value. The recognition of movements in the fair value of derivative instruments depends on the following three classifications:
- Fair value hedges: the movements in the fair value of the derivative are taken to the income statement and offset, to the extent of the effective part, the movements in fair value of the underlying asset, liability or firm commitment, also recorded in the income statement. Forward exchange transactions and exchange swaps that cover certain commercial contracts and financial assets and liabilities denominated in foreign currencies are considered as fair value hedges.
- Hedging of future flows: the movements in fair value are recorded in equity for the effective part and reclassified in income when the item covered affects the latter. The ineffective part is taken directly to financial income and expense.
  Interest rate derivative instruments, as well as budget cash flow hedges are treated as future cash flow hedges.
- Transaction derivatives: the movements in the fair value of the derivative are recorded in finance income and costs.

12. INVENTORIES AND WORK IN PROGRESS

Inventories and work-in-progress include raw materials, work-in progress and finished products. They are stated at the lower of production cost and estimated net realisable value.

Raw materials are measured using the weighted average cost method.

Work-in-progress and finished products are measured at their production cost. The cost of inventories includes direct raw material costs and, where relevant, direct labour costs as well as overheads incurred in bringing the inventories to their present location and condition.

Writedowns are recorded to take into account the risk of obsolescence.

13. NON-CURRENT ASSETS HELD FOR DISPOSAL AND DISCONTINUED OPERATIONS

IFRS requires the separate disclosure in the balance sheet of the total value of assets and liabilities of operations held for disposal and discontinued without any offset. IFRS also requires the separate disclosure in the income statement of the total after tax profit realised from discontinued operations.

Non-current assets held for disposal may no longer be depreciated or amortised. They are valued at the lower of their carrying value and fair market value net of disposal costs.

14. TREASURY SHARES

Faiveley Transport parent company shares held by the subsidiaries or the parent company are deducted from consolidated equity, with any gains or losses on their disposal being directly allocated to equity.

15. PROVISIONS FOR LIABILITIES AND CHARGES

15.1. Provisions for retirement benefits and other personnel commitments

In accordance with the laws and practices of each country, Faiveley Transport Group participates in retirement benefit plans, social security plans, medical plans and employment termination indemnity schemes, with benefits based on several factors including seniority, wages and payments made into mandatory general plans.

These plans may be defined-benefit or defined-contribution plans.

– Post-employment benefits – defined benefits

Following retirement, Group employees receive benefits (pension or allowance) funded by a number of Group companies. These defined benefit plans primarily concern the United Kingdom, Germany, France and Italy.

In the United Kingdom and Germany, the majority of these plans involve supplementary pension plans. In the United Kingdom, commitments are pre-financed by plan assets.

In France, employees are granted by law a retirement benefit for an amount that varies according to the applicable collective agreement, seniority of employment and final salary. This benefit is paid by the employer when the employee retires. The 2010 pension reform, which in particular plans to raise the retirement age from 60 to 62 years by 2017, was taken into account and treated as an actuarial gain or loss.

In Italy, the law provides for the payment by companies of the "Trattamento di Fine Rapporto" (Severance pay) or TFR for the benefit of employees. The TFR is funded by a 7.4% contribution paid by the employer and is accumulated so as to provide the employee with a lump sum when leaving the Company. The impact of the TFR reforms has been integrated since 31 March 2008. The provision established in the Company's financial statements relates to rights acquired prior to 1 January 2007. For rights acquired subsequently, the employer's commitment is limited to the payment of contributions to external funds.

Commitments for defined benefit plans are calculated based on the "projected unit credit" method. Actuarial differences (resulting from changes in assumptions or experience variances) are recognised according to the corridor method. That portion of actuarial gains or losses exceeding 10% of the higher of the value of future benefits and the value of plan assets is amortised over the average remaining employment life of participants in the plan.

– Post-employment benefits – defined contributions

Contributions into defined contribution plans are expensed when made.

– Other long-term benefits

Other long-term benefits primarily concern Germany (seniority bonuses and early retirement schemes) and France (seniority awards).

Actuarial differences for this type of plan are expensed when they arise.

The net expense for retirement commitments and similar benefits is broken down between cost of sales and fixed costs, according to the distribution of the Company workforce.

15.2. Other provisions for liabilities and charges

In accordance with IAS 37, the Faiveley Transport Group recognises a provision when an obligation to a third party arises that will result in a probable loss or liability that can be reasonably measured. The Group reports a contingent liability as an off-balance sheet commitment when there is only a possibility of a resulting loss or liability or when it cannot be reasonably measured.

These provisions are determined based on the best knowledge available concerning risks incurred and their probability of realisation and are allocated to specific risks. They cover, in particular:
- probable after sales service expenditure arising from mechanical warranties;
- probable expenditure for industrial risks covered by contractual guarantees. The measurement of the provision amount is based on such factors as the products' technical complexities, their innovative nature, geographical proximity, etc.;
- litigation risks;
- losses on completion for the part exceeding the amounts due by the customers;
- restructuring costs when the restructuring has been officially announced and is subject of a detailed plan or whose execution has already begun.

These provisions are valued at their present value when their impact is significant and their measurement reasonably reliable.
Provisions for guarantees are calculated according to the percentage related to the type of product manufactured and experience gained of its reliability over time. The percentages vary from 1% to 6% according to the products and are applied to the sales achieved by project.

16. DEFERRED TAX

In accordance with IAS 12, deferred tax is calculated using the balance sheet liability method (use of tax rates adopted or virtually adopted at the balance sheet date) for all temporary differences between the accounting and tax treatments of assets and liabilities of each Group entity noted at the balance sheet date.

Deferred tax assets arising from tax losses carried forward are recognised when it is probable that the Group will realise sufficient taxable profits in the next financial year to offset against the tax loss incurred.

Deferred tax is recorded in the income statement, unless it relates to items directly posted to other items of comprehensive income, in which case it is also recognised under other items of comprehensive income.

17. SEGMENT REPORTING

In light of criteria defined by IFRS 8 and given the Group's internal organisation (steering of activities by project, with projects generally comprising several products and involving the participation of several Group subsidiaries) and the structure of the market, the Group opted for a presentation similar to IAS 14, pursuant to IFRS 8. In addition, it was deemed appropriate to retain an analysis by geographic region.

As a result, the application of IFRS 8 had no impact on the information presented at 31 March 2012 by the Group.

Segment information is presented in Note E.17.

18. SPECIFIC MECHANISMS LINKED TO FAIVELEY TRANSPORT SHAREHOLDING

Managers who were shareholders of Faiveley Management ("FM Managers") and Faiveley M2 ("FM2 Managers") have undertaken the following commitments in relation to their shareholdings in Faiveley Transport.

18.1. FM Managers commitments

FM Managers all agreed to a lock-up commitment of all their Faiveley Transport shares for 2 years, and of two thirds of their shares for 3 years from 23 December 2008.

In addition, over a period of 6 years from 23 December 2008, any disposal by an FM Manager of a block of more than 10,000 Faiveley Transport shares is subject to a Faiveley Transport pre-emption right.

18.2. FM2 Managers commitments

Every FM2 manager has entered into a unilateral undertaking to sell their Faiveley Transport shares to Faiveley Transport, which may be exercised in the event they resign their duties with the Faiveley Transport Group.

FM2 managers all agreed to a lock-up commitment of all their Faiveley Transport shares for 3 years from 23 December 2008.

In addition, over a period of six years from 23 December 2008, any disposal by an FM2 manager of a block of more than 3,000 Faiveley Transport shares, is subject to a Faiveley Transport pre-emption right.

D. Changes in consolidation scope

1. NEWLY-CREATED COMPANIES

The Faiveley Transport office in China became a subsidiary following the creation of Faiveley Transport Systems Technology (Beijing) Co. Ltd.

2. ACQUISITIONS

2.1. New acquisitions

– Acquisition of Graham-White Manufacturing Co.

In the fourth quarter of 2011/2012, Faiveley Transport acquired the American company Graham-White Manufacturing Co. and its subsidiaries. Graham-White Manufacturing Co. is a global leader in compressed air drying technology for railway braking systems and a leading provider of brake components in the US locomotive and rail freight market, generating annual sales of over USD 70 million, with a large share of revenues stemming from after-sales service and re-manufacturing.

Detailed calculation of goodwill:

	USD thousands	€ thousands [1]	€ thousands [2]
Acquisition cost of the shares	118,477	90,028	88,707
Shareholders' equity	20,862	15,853	15,620
GOODWILL	**97,615**	**74,175**	**73,087**

(1) Converted at the exchange rate on the acquisition date (3 February 2012): €0.759878.
(2) Converted at the closing exchange rate on 31 March 2012: €0.748727.

The valuation of the goodwill on these acquisitions has been calculated provisionally. In accordance with IFRS 3, these initial values may be restated within 12 months of the acquisition date.

2.2. Summary of acquisitions during the last two financial years

Companies acquired	Main business	Acquisition date	% owned	Acquisition cost
2011/2012				
Graham-White Manufacturing Co. and its subsidiaries	Design and manufacture of compressed air drying technology and brake components	3 February 2012	100%	USD 118,477 thousand
2010/2011				
Faiveley Transport Schweiz AG (formerly Urs Dolder AG)	Manufacture of electrical heating devices	24 February 2011	80%	€2,926 thousand

2.3. Impact of addition of new acquisitions to the Group structure

	Graham-White Manufacturing Co.		
	Carrying value	Adjustments	Fair value
Non-current assets:			
Intangible assets and property, plant and equipment	7,711	1,972	9,683
Deferred tax assets	–	5,209	5,209
Current assets:			
Inventories	4,609	2,032	6,641
Trade receivables	8,178	–	8,178
Other current receivables	204	–	204
Cash	**529**	**–**	**529**
Non-current liabilities:			
Non-current provisions	–	–	–
Deferred tax liabilities	–	(257)	(257)
Long-term financial debt	–	–	–
Current liabilities:			
Current provisions	–	(6,773)	(6,773)
Short-term financial debt	–	–	–
Operating liabilities	(3,247)	(3,723)	(6,970)
Other liabilities	–	–	–
TOTAL	**17,984**	**(1,540)**	**16,444**
of which Group share	**–**	**–**	**15,853**
Goodwill	–	–	74,175
Acquisition cost	**–**	**–**	**90,028**

* Amounts in € thousands translated at the exchange rate on the acquisition date (3 February 2012): €0.759878.

These financial statements have been prepared in accordance with IFRS. We have not identified any material difference in the fair value of the amounts disclosed above.

Since the acquisition date, the contribution of new acquisitions to sales has been €8,786 thousand and €933 thousand to net profit.

According to Company estimates, had Graham-White Manufacturing Co. been consolidated over the full year, i.e. from 1 April 2011 to 31 March 2012, this acquisition would have had the following impacts on the income statement:

- Sales: €53,944 thousand, i.e. 5.99% of the Faiveley Transport Group's consolidated sales for the year to 31 March 2012.
- Net profit: €5,688 thousand, i.e. 11.11% of the Faiveley Transport Group's consolidated net profit for the year to 31 March 2012.

3. DISPOSALS AND COMPANIES NO LONGER CONSOLIDATED

Nil.

4. MOVEMENTS IN GOODWILL DURING THE ALLOCATION PERIOD

The value of assets contributed by Amsted Rail during the creation of the Amsted Rail-Faiveley LLC joint venture in July 2010 has been restated and offset against goodwill.

This restatement had negative impact of USD 0.5 million (€0.3 million) on the opening goodwill balance.

E. Notes to the consolidated financial statements and accompanying tables (€ thousands)

1. GOODWILL

To expand its product range, the Faiveley Transport Group has acquired specialised companies. The main acquisitions include the Sab Wabco Group (acquired in 2004), which focuses on brake products and couplers, Faiveley Transport NSF (acquired in 2005), which specialises in air conditioning equipment, Nowe GmbH (acquired in 2008), which designs sanding systems, ShiJiaZhuang JiaXiang Precision Machinery Co. Ltd (of which 50% was acquired in 2007), which develops and manufactures compressors, Ellcon National (acquired in 2008), which specialises in brake components for the rail freight market, the sintered brake pads activity of Carbone Lorraine on 1 April 2008, Faiveley Transport Schweiz AG (acquired in February 2011), a manufacturer of railway heating devices, and Graham-White Manufacturing Co. (acquired in 2012) for the manufacturing of compressed air drying technology and brake components for the locomotive and railway freight market.

Following these acquisitions, the Group allocated goodwill and intangible assets with indefinite useful lives to each of the legal entities concerned or to a group of companies (which made up the Sab-Wabco group). A Cash Generating Unit therefore corresponds to a company acquired or a group of companies. The allocation of these goodwill amounts has not subsequently been amended.

In addition to these acquisitions, additional goodwill was recognised in the financial statements at the time of Faiveley Transport's (formerly Faiveley S.A.) acquisition of the entire minority shareholdings (both direct and indirect) in its subsidiary, Faiveley Transport. This goodwill is subject to an annual impairment test based on the Group's consolidated financial statements.

The following table provides details of unallocated goodwill as at 31 March 2012:

	Gross	Accumulated impairment	Net 31 March 2012	Net 31 March 2011
Faiveley Transport minority interests	265,778	–	265,778	265,778
Sab Wabco Group	234,004	–	234,004	234,004
Graham-White Manufacturing Co.	73,087	–	73,087	–
Amsted Rail-Faiveley LLC/Ellcon National Inc.	33,736	–	33,736	32,077
Faiveley Transport NSF	10,057	–	10,057	10,057
Nowe GmbH	7,581	–	7,581	7,831
Faiveley Transport Tours (1)	6,061	–	6,061	6,061
Faiveley Transport Schweiz AG (formerly Urs Dolder AG)	2,264	–	2,264	2,264
Faiveley Transport Gennevilliers	13,470	–	13,470	1,013
Shijiazhuang Jiaxiang Precision Machinery Co. Ltd.	102	–	102	102
Others	2,841	–	2,841	2,841
TOTAL	**648,981**	**–**	**648,981**	**562,028**

(1) Goodwill recognised following the purchase of Espas Group.

The business goodwill of €12,457 thousand recognised in the financial statements of Faiveley Transport Gennevilliers, at the time of the acquisition of certain assets of Carbone Lorraine's sintered brake pad activity, has been reclassified as acquisition goodwill during the year. At that time, the intangible assets concerned had not been subject to separate impairment tests that would have led to their identification.

• Change 2011/2012

	Gross 1 April 2011	Adjustments to opening goodwill	Acquisitions	Disposals	Impairment test	Other movements	Gross 31 March 2012
Faiveley Transport minority interests	265,778	–	–	–	–	–	265,778
Sab Wabco Group	234,004	–	–	–	–	–	234,004
Graham-White Manufacturing Co.	–	–	74,175	–	–	(1,088) (1)	73,087
Amsted Rail-Faiveley LLC/Ellcon National Inc	32,077	(362)	–	–	–	2,021 (1)	33,736
Faiveley Transport NSF	10,057	–	–	–	–	–	10,057
Nowe GmbH	7,831	–	–	–	–	(250) (2)	7,581
Faiveley Transport Tours	6,061	–	–	–	–	–	6,061
Faiveley Transport Schweiz AG (formerly Urs Dolder AG)	2,264	–	–	–	–	–	2,264
Faiveley Transport Gennevilliers	1,013	–	–	–	–	12,457 (3)	13,470
Shijiazhuang Jiaxiang Precision Machinery Co. Ltd	102	–	–	–	–	–	102
Others	2,841	–	–	–	–	–	2,841
TOTAL	**562,028**	**(362)**	**74,175**	**–**	**–**	**13,140**	**648,981**

(1) These movements are due to the translation difference on goodwill recognised in US Dollars: Graham-White Manufacturing Co. (USD 97,615 thousand) and Amsted Rail-Faiveley LLC/Ellcon National Inc (USD 45,057 thousand).
(2) Adjustment to the goodwill of Nowe GmbH following the discounting of the put option on shares held by minority interests.
(3) Reclassification of the Faiveley Transport Gennevilliers business goodwill.

As every year, at the time of closing the annual accounts, the Group reviews the value of goodwill and other non-current assets reflected on the balance sheet. This review was conducted by groups of net assets belonging to the same company or group of companies, based on cash flows expected from these assets, as determined within the framework of a strategic analysis, involving in particular the preparation of the budget and the long-term business plan.

The assumptions concerning sales growth are established based on the budget for the coming year and provisional budgets for the following two years. These forecasts are reliable due to high visibility in our markets and our significant order book. Beyond the first three years of forecast, a growth rate of 2.5% is used for the last year of the business plan and the subsequent two years. Beyond five years and to infinity, the growth rate used is 1.5%, which is a relatively prudent assumption in relation to the growth rates expected in this market.

The calculation of the free cash flow incorporates standard data for the entity in terms of changes in working capital requirement and capital expenditure.

The reference pre-tax WACC (Weighted Average Cost of Capital) is 12.4% for France (being an after-tax WACC of 8.3%), 13.5% for the rest of the Eurozone and the rest of the world, excluding the US, and 11.3% for the US. It is calculated using corresponding parameters:

- Market data:
  - risk-free rate on 10-year French government bonds (average of the last 3 months, January to March 2012). This risk-free rate is 3% for France and 4.1% for the Eurozone and the rest of the world, excluding the US. It is 2% for the USD area,
  - levered beta of sector of 6.6% and market risk premium of 1.26%. These percentages were obtained based on studies carried out in March 2012 by Bloomberg, Mainfirst and HSBC on Faiveley Transport.
- The entity's parameters:
  - estimated cost of debt: 2.4% for the 2011/2012 year (4-year swap rate, i.e. over the average maturity of Faiveley's debt and including an average spread of 100 pps),
  - equity/debt ratio at the balance sheet date,
  - a standard tax rate of 33.33%.

The carrying value at 31 March 2012 of goodwill and other non-current assets grouped together with other net assets by company or group of companies, was compared to their value in use calculated using the aforementioned method. No impairment was recognised following this review.

Furthermore, the sensitivity analyses carried out show that the use of a discount rate 1% higher or a standard annual growth rate 1% lower than those mentioned above would not have given rise to impairment, since in all assumptions the recoverable value of the Cash Generating Units remained higher than the net carrying value of their assets.

To supplement these impairment tests, it should be noted that the internal steering of all Group activities is carried out based on a monitoring of each project awarded. Projects with a lifespan exceeding one year are recognised according to the method prescribed by IAS 11 (recognition of profit margin based on the percentage of completion). Projects generally involve several products and thus involve several Group companies. They are reviewed periodically, under the responsibility of the Project Manager, to ensure their proper implementation. Site and Group Financial Controllers attend these meetings. Following review of the projects, the risks identified are estimated and a provision is established in the financial statements.

2. OTHER INTANGIBLE ASSETS

	Gross	Accumulated amortisation	Net 31 March 2012	Net 31 March 2011
Research costs	20,005	10,507	9,498	8,645
Patents, trademarks and licences	21,963	18,774	3,189	3,265
Business goodwill	2,561	–	2,561	12,507
Other intangible assets	25,103	294	24,809	20,514
TOTAL	**69,632**	**29,575**	**40,057**	**44,931**

At 31 March 2012, intangible assets are broken down as follows:

- Research costs: only include development costs incurred as part of research programmes and that comply with the IFRS capitalisation criteria. These costs are amortised over a maximum of 3 years.
- Patents, trademarks and licences: this heading primarily includes patents acquired as part of the acquisition of Carbone Lorraine's sintered brake business (€4,000 thousand), and computer software amortised over a maximum of 5 years.
- Business goodwill: comprises the client list taken over through the acquisition of Graham-White Manufacturing Co., valued at €2.5 million (i.e. USD 3.4 million).
- Other intangible assets: primarily includes intangible assets identified and measured (in particular, sales agency agreements) as part of the creation of the Amsted Rail-Faiveley LLC joint venture, for an amount of €8,626 thousand (USD 11,521 thousand) and costs already incurred of €14,548 thousand, corresponding to the rollout of the Moving Forward project, a significant IT system integration programme, launched in 2007, whose objective is to optimise our organisations, industrial processes, equipment and the sharing of technical data within the Faiveley Transport Group.

• Change 2011/2012

	Research costs	Patents, trademarks and licences	Business goodwill	Other intangible assets	Total
Gross 1 April 2011	**17,573**	**20,639**	**12,507**	**21,174**	**71,893**
Change in group structure	–	731	2,578	489	3,798
Acquisitions	2,919 (1)	632	–	3,456	7,007
Disposals	(818)	(440)	–	(214)	(1,472)
Other movements	331	401	(12,524)	198	(11,594) (2)
GROSS 31 MARCH 2012	**20,005**	**21,963**	**2,561**	**25,103**	**69,632**
Accumulated amortisation at 1 April 2011	**(8,928)**	**(17,374)**	**–**	**(660)**	**(26,962)**
Change in group structure	–	–	–	–	–
Charges to provision	(1,865)	(1,596)	–	(145)	(3,606)
Reversal of provision	570	440	–	214	1,224
Other movements	(284)	(244)	–	297	(231)
ACCUMULATED AMORTISATION AT 31 MARCH 2012	**(10,507)**	**(18,774)**	**–**	**(294)**	**(29,575)**
NET 31 MARCH 2012	**9,498 (3)**	**3,189**	**2,561**	**24,809**	**40,057**

(1) Development costs capitalised over the period
(2) Including impact of exchange differences of €598 thousand and reclassification of the business goodwill of Faiveley Transport Gennevilliers as acquisition goodwill for €(12,457) thousand
(3) Of which allocated acquisition goodwill: Development costs: €962 thousand.

3. PROPERTY, PLANT AND EQUIPMENT

	Gross	Accumulated depreciation	Net 31 March 2012	Net 31 March 2011
Land	6,086	238	5,848	5,311
Buildings	80,562	54,900	25,662	24,359
Plant and machinery	145,405	117,969	27,436	23,666
Other	39,593	31,073	8,520	8,990
Under construction	1,446	–	1,446	1,180
TOTAL	**273,092**	**204,180**	**68,912**	**63,506**

• Change 2011/2012

	Land	Buildings	Plant and machinery	Other	Under construction	Total
Gross 1 April 2011	**5,545**	**75,361**	**133,625**	**42,206**	**1,180**	**257,917**
Change in group structure	536	1,769	8,001	1,471	–	11,777
Acquisitions	–	847	5,251	2,642	1,622	10,362
Disposals	–	(125)	(3,707)	(5,917)	–	(9,749)
Other movements	5	2,710	2,235	(809)	(1,356)	2,785 (1)
GROSS 31 MARCH 2012	**6,086**	**80,562**	**145,405**	**39,593**	**1,446**	**273,092**
Accumulated depreciation at 1 April 2011	**(234)**	**(51,002)**	**(109,959)**	**(33,216)**	**–**	**(194,411)**
Change in group structure	–	–	(4,708)	(1,185)	–	(5,893)
Charges to provision	(4)	(2,969)	(5,680)	(2,687)	–	(11,340)
Reversal of provision	–	115	3,356	5,777	–	9,248
Other movements	–	(1,044)	(978)	238	–	(1,784)
ACCUMULATED DEPRECIATION AT 31 MARCH 2012	**(238)**	**(54,900)**	**(117,969)**	**(31,073)**	**–**	**(204,180)**
NET AT 31 MARCH 2012	**5,848**	**25,662**	**27,436**	**8,520**	**1,446**	**68,912**

(1) Including €2,796 thousand related to exchange differences.

• Property, plant and equipment acquired under finance leases

The following table provides an analysis of property, plant and equipment acquired under finance leases:

	Gross	Accumulated depreciation	Net 31 March 2012	Net 31 March 2011
Software licences	1,079	–	1,079	1,079
Land	1,088	–	1,088	1,088
Buildings	8,353	5,733	2,620	2,743
Plant and machinery	427	415	12	38
Transportation equipment	–	–	–	41
TOTAL	**10,947**	**6,148**	**4,799**	**4,989**

• Finance leases

Finance lease contracts relate to property assets and technical equipment. The future minimum lease payments on non-cancellable leases are shown in the table below:

	2011/2012	2010/2011
Less than 1 year	227	639
1 to 5 years	863	765
More than 5 years	928	1,081
TOTAL FUTURE LEASE PAYMENTS	**2,018**	**2,485**
Less financial interest	(172)	(15)
FINANCIAL LIABILITIES ATTACHED TO FINANCE LEASES	**1,846**	**2,471**

4. NON-CURRENT FINANCIAL ASSETS

	Gross	Provisions	Net 31 March 2012	Net 31 March 2011
Investments in unconsolidated subsidiaries (1)	922	677	245	245
Investments in associates	–	–	–	–
Other financial investments	5,563	25	5,538	4,700
TOTAL	**6,485**	**702**	**5,783**	**4,945**

(1) Full details of unconsolidated subsidiaries are provided in Note G.2.

• Change 2011/2012

	Investments in unconsolidated subsidiaries	Investments in associates	Other financial investments	Total
Gross at 1 April 2011	**922**	**–**	**5,476**	**6,398**
Changes in group structure	–	–	–	–
Acquisitions	–	–	607	607
Disposals	–	–	(279)	(279)
Other movements (1)	–	–	(241)	(241)
GROSS AT 31 MARCH 2012	**922**	**–**	**5,563**	**6,485**
Provisions at 1 April 2011	**(677)**	**–**	**(776)**	**(1,453)**
Changes in group structure	–	–	–	–
Charges to provision	–	–	–	–
Reversal of provision	–	–	152	152
Other movements	–	–	599	599
PROVISIONS AT 31 MARCH 2012	**(677)**	**–**	**(25)**	**(702)**
NET AT 31 MARCH 2012	**245**	**–**	**5,538**	**5,783**

(1) Including €(156) thousand in respect of translation differences and €(85) thousand in respect of reclassifications.

• Maturity date of other financial investments

	1 to 5 years	More than 5 years	Total 31 March 2012	Total 31 March 2011
Other non-current investments	7	147	154	7
Loans	273	736	1,009	1,050
Guaranteed deposits and securities	815	319	1,134	1,091
Other financial receivables [(1)]	2,840	426	3,266	3,328
TOTAL	**3,935**	**1,628**	**5,563**	**5,476**

(1) Including receivable re sale of land to Cyrela (Brazil): €2,840 thousand at 31 March 2012 and €2,887 thousand at 31 March 2011.

5. DEFERRED TAX

	As at 1 April 2011	Change in group structure [(2)]	Impact on income statement	Other movements	Impact on equity	As at 31 March 2012
Provisions for inventory impairment	1,640	258	176	33	–	2,106
Provisions for trade and other receivables impairment	1,718	74	271	9	–	2,073
Provisions for contracts	8,352	1,250	133	253	–	9,987
Provisions for restructuring	405	–	62	–	–	467
Provisions for retirement benefits and seniority awards	3,359	–	210	28	–	3,598
Other provisions for liabilities	475	1,274	631	(29)	–	2,352
Other restatements	8,771	2,551	3,095	84	–	14,502
Percentage of completion method (IAS 11)	836	–	123	27	–	986
Elimination of inventory margins (Intra-Group)	1,118	–	(171)	(1)	–	946
Restatements under IAS 32-39 (cash flow)	1,735	–	(889)		1,105	1,951
Leases	8	–	(136)	(1)	–	(129)
Tax losses carried forward	9,865	–	421	535	–	10,821
Tax losses carried forward but not recognised [(1)]	(8,434)	–	2,732	(360)	–	(6,062)
TOTAL DEFERRED TAX ASSETS (A)	**29,848**	**5,407**	**6,658**	**579**	**1,105**	**43,598**
Provisions for inventory impairment	861	–	(657)	33	–	237
Provisions for trade and other receivables impairment	10	–	–	–	–	10
Provisions for contracts	1,073	–	1,053	–	–	2,126
Provisions for retirement benefits and seniority awards	135	–	(3)	–	–	132
Other provisions and restatements	7,769	455	2,560	123	–	10,908
Regulated provisions	562	–	10	2	–	573
Percentage of completion method (IAS 11)	2,586	–	458	121	–	3,165
Capitalisation of development costs	2,522	–	474	–	–	2,996
Restatements under IAS 32-IAS 39 (cash flow)	1,534	–	(113)	–	39	1,459
Finance leases	456	–	26	(1)	–	482
TOTAL DEFERRED TAX LIABILITIES (B)	**17,508**	**455**	**3,809**	**278**	**39**	**22,089**
Impact on income statement (a)-(b)+(c)	–	–	2,849	–	–	–

(1) Amount of deferred tax assets corresponding to tax losses not recognised due to the risk of non-recovery.
(2) See Note D.

On the basis of the budget and three-year plan, the Group is confident as to the recovery of the net deferred tax balance of €21.5 million.

6. INVENTORIES

The accounting methods used to measure inventories (including the method for determining the cost used) are described in paragraph C.12.

	Gross	Provisions	Net 31 March 2012	Net 31 March 2011
Raw materials	102,136	14,096	88,040	83,876
Work-in-progress	25,029	750	24,279	24,835
Finished products	27,666	1,533	26,133	14,949
Merchandise	6,466	918	5,548	10,222
TOTAL	**161,297**	**17,297**	**144,000**	**133,882**

• Movements in provisions 2011/2012

	Provisions at 1 April 2011	Change in group structure	Charges to provisions	Reversals provisions used	Reversals provisions not used	Other movements	Provisions at 31 March 2012
Raw materials	12,647	–	4,523	(3,081)	(148)	155	14,096
Work-in-progress	481	–	213	(60)	(67)	183	750
Finished products	1,032	880	340	(72)	(494)	(153)	1,533
Merchandise	1,168	–	236	(90)	(414)	18	918
TOTAL	**15,328**	**880**	**5,312**	**(3,303)**	**(1,123)**	**203** (1)	**17,297**

(1) Including €203 thousand in respect of translation differences.

During the 2011/2012 financial year, old inventories and inventories that had become totally obsolete were scrapped. Provisions of 77.6% of the value of these inventories had previously been raised. The impact on the income statement for the year ended 31 March 2012 was a loss of €1 million.

7. WORK-IN-PROGRESS ON LONG TERM CONTRACTS

At 31 March 2012, net work-in-progress on projects were valued at €91 million, compared to €70.1 million in the previous year. These primarily include engineering costs on long-term contracts. At each balance sheet date, the Group assesses their recoverable value. In the event of a loss-making contract, writedown is recognised as a reduction of contracts in progress.

Gross work-in-progress on projects were €98 million at 31 March 2012, compared to €73 million at 31 March 2011.

8. CURRENT RECEIVABLES

8.1. Trade receivables

	Gross	Provisions	Net 31 March 2012	Net 31 March 2011
Trade receivables	278,796	6,193	272,603	278,692
Receivables sold to a factor	(93,201)	–	(93,201)	(94,968)
TOTAL	**185,595**	**6,193**	**179,402**	**183,724**

– Movements in provisions for doubtful trade receivables

Year ended:	Opening balance	Change in group structure	Charges to provisions	Reversals provisions used	Reversals provisions not used	Other movements	Closing balance
31 MARCH 2012	**4,881**	**200**	**3,232**	**(1,211)**	**(1,024)**	**115**	**6,193**
31 March 2011	6,994	154	4,795	(4,698)	(2,317)	(47)	4,881

A provision for doubtful trade receivables is raised when there is an objective indication of the Group's inability to recover all or part of the amounts due under the terms initially laid down in respect of the transaction. Significant financial difficulties encountered by the debtor, the probability that the debtor will become bankrupt or undergo a financial restructuring or payment default are indications of the impairment of a receivable.

– Trade receivables at year end

	Total balance sheet	Receivables not yet due	Receivables due				
			Total	Less than 60 days	Between 60 and 120 days	Between 120 and 240 days	More than 240 days
Gross value	185,595	161,634	23,961	11,837	3,353	1,618	7,153
Provisions	(6,193)	(1,565)	(4,628)	(592)	(553)	(509)	(2,974)
NET VALUE	**179,402**	**160,069**	**19,333**	**11,245**	**2,800**	**1,109**	**4,179**

Receivables remaining unpaid beyond the contractual due date represent, in most cases, amounts confirmed by customers but in respect of which payment is subject to the retentions identified when work was inspected.

8.2. Other current assets

	Gross	Provisions	Net 31 March 2012	Net 31 March 2011
Supplier credit notes	1,431	–	1,431	794
Social security and tax receivables	10,650	–	10,650	13,199
Prepaid expenses	4,478	–	4,478	3,373
Accrued income	515	–	515	1,497
Dividends receivable	–	–	–	–
Other receivables	1,563	122	1,441	2,127
TOTAL	**18,637**	**122**	**18,515**	**89,008**

9. CURRENT FINANCIAL ASSETS

	31 March 2012	31 March 2011
Guaranteed deposits and securities (1)	4,021	4,323
Other financial receivables	304	369
Current accounts	–	307
Fair value of derivatives - Assets	5,003	7,619
TOTAL	**9,328**	**12,618**

(1) Of which guarantees provided to the factor: €3,834 thousand at 31 March 2012 and €3,551 thousand at 31 March 2011.
In order to guarantee the repayment of amounts the Group may owe the factor, the factor records in its ledgers a non-interest bearing escrow account funded by deductions made on the financing of transferred receivables. The balance on this account represents 10% of transferred receivables outstanding; this rate may potentially be increased in the event of an increase in disallowed receivables (credit notes, disputes, non-payment or discounts).

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10. CLOSING CASH AND CASH EQUIVALENTS (GROSS AMOUNTS)

	31 March 2012	31 March 2011
Short term investments	41,085	44,927
Cash	169,166	153,457
Bank overdrafts	(2,405)	(4,771)
Invoices factored and not guaranteed	(1,023)	(902)
TOTAL	**206,823**	**192,711**

The Group does not hold a share portfolio but deposits excess cash balances. At 31 March 2012, it had certificates of deposits of €29.3 million and fixed-term deposits of €11.8 million. These deposits meet the criteria specified by IAS 7, which enables them to be classified as cash equivalents.

For local regulatory reasons, the cash and cash equivalents held by the Brazilian subsidiary (€4.4 million at the end of March 2012), may not be pooled with the Group's other cash resources, or be paid out as dividends until losses carried forward are not settled. As an exception, these cash balances are invested locally in certificates of deposits with a maturity exceeding 3 months. However, they may be drawn down at any time and do not bear any capital risk.

11. EQUITY

11.1. Share capital

At 31 March 2012, the Company's share capital totalled €14,614,152 divided into 14,614,152 shares of €1 each, fully paid up. Shares registered in the name of the same shareholder for at least two years have double voting rights.

As regards its capital management, the Faiveley Transport Group's main objective is to ensure the retention of a good credit risk rating and sound capital ratios in order to facilitate its activity and maximise value for its shareholders.

The Group manages its capital by ensuring that it maintains three financial ratios within the limits defined by its credit agreements (see Note E.13).

The Group manages its capital structure and makes adjustments depending on changes in economic conditions. With a view to maintaining or amending its capital structure, the Group may adjust the payment of dividends to its shareholders, redeem part of its capital or issue new shares. The management objectives, policies and procedures remained unchanged in 2012 and 2011.

– Composition of the share capital

Shares	Nominal value	31 March 2011	New shares issued	Double voting rights granted	31 March 2012
Ordinary	1	6,486,734	209,441	(34,805)	6,661,370
Redeemed	–	–	–	–	–
With preferred dividends	–	–	–	–	–
With double voting rights	1	7,917,977	–	34,805	7,952,782
TOTAL	**1**	**14,404,711**	**209,441**	**–**	**14,614,152**

– Breakdown of share capital and voting rights

	31 March 2012		31 March 2011	
Main shareholders	% of capital	% of voting rights	% of capital	% of voting rights
François Faiveley Group and the Faiveley family	52.62	66.70	53.42	67.50
Treasury shares	2.93	–	3.21	–
Registered securities [1]	6.26	8.08	6.70	8.34
General public	38.19	25.22	36.67	24.16

(1) Excluding treasury shares and Faiveley Family.

– Share purchase option plans

In 2005, Faiveley Transport implemented a share purchase option plan for the benefit of key Faiveley Transport Group management (excluding the managers who invested in Faiveley Management S.A.S.). This plan was approved by the Extraordinary General Meeting of 27 September 2005 for a period of thirty-eight months, expiring on 27 September 2008.

In order to meet its future obligation to transfer these shares to the plan beneficiaries, Faiveley Transport began a share buyback programme at the end of 2005.

If the share purchase options were exercised, they would result in the purchase of existing Faiveley Transport ordinary shares.

- Principal characteristics of the current share purchase option plan

Options granted	n°1	n°2	n°3	n°4	n°5	n°6	n°7	n°8	n°9	n°10
Date of Management Board meeting	24/11/2005	29/12/2005	22/06/2006	25/10/2006	15/11/2006	01/12/2006	02/04/2007	19/02/2008	29/03/2008	17/07/2008
Exercise price in € *	26.79	29.75	30.48	33.77	34.13	34.01	42.80	32.31	34.08	40.78
Date from which options can be exercised	24/11/2007	29/12/2007	22/06/2008	25/10/2008	15/11/2008	01/12/2008	02/04/2009	19/02/2010	29/03/2010	17/07/2010
Expiry date	23/11/2012	28/12/2012	21/06/2013	24/10/2013	14/11/2013	30/11/2013	01/04/2014	18/02/2015	28/03/2015	16/07/2015
Initial number of beneficiaries	38	1	6	1	1	2	5	4	3	1
Adjusted initial number	30	–	5	–	–	–	–	–	–	–
Total number of options granted	221,760	6,720	31,360	6,720	4,480	11,200	26,880	26,880	13,440	22,600
Total number of options exercised	160,126	6,720	21,719	6,720	4,480	7,330	11,220	20,560	130	–
Total number of options cancelled	47,040	–	4,480	–	–	–	–	–	4,480	–
Number of options remaining to be exercised at 31 March 2012	14,594	–	5,161	–	–	3,870	15,660	6,320	8,830	22,600
Percentage of share capital that could be created at 31 March 2012	–	–	–	–	–	–	–	–	–	–
Number of shares that may be subscribed by members of the Management Board and Supervisory Board	6,720	–	–	–	–	–	–	–	–	–
Number of shares that could be subscribed by members of the Executive Committee	13,440	–	–	–	–	–	–	6,720	–	22,600
Conditions of exercise	100% of options exercisable as from 24/11/2007	100% of options exercisable as from 29/12/2007	100% of options exercisable as from 22/06/2008	100% of options exercisable as from 25/10/2008	100% of options exercisable as from 15/11/2008	100% of options exercisable as from 01/12/2008	100% of options exercisable as from 02/04/2009	100% of options exercisable as from 19/02/2010	100% of options exercisable as from 29/03/2010	100% of options exercisable as from 17/07/2010

* The exercise price is equal to the average price of the twenty trading days preceding the date of the Management Board meeting that decided to grant the options, less a discount of 5%.

Following the departure of certain beneficiaries and the options exercised since the plans were implemented by the Management Board, at 31 March 2012, 77,035 options granted to 15 beneficiaries remained outstanding.

In the knowledge that the options become exercisable from the second anniversary of the date of their granting by the Chairman of the Management Board, subject to the requirement that the holder of the options continues to be employed by the Faiveley Transport Group at the time of exercise and accepts the option scheme rules, 239,005 options have been exercised to date.

- Changes to the plan

	31 March 2012	31 March 2011
Options granted	372,040	372,040
Options cancelled	56,000	56,000
Options exercised	239,005	198,499
OPTIONS OUTSTANDING	**77,035**	**117,541**

– Share subscription option plans

The Combined General Meeting of Faiveley Transport, held on 22 September 2009, authorised the Management Board to grant share purchase and/or subscription options, up to a maximum of 1% of the share capital.

The Management Board decided at its meeting of 23 November 2009 to grant, to 15 beneficiaries, options giving right to subscribe for new shares in the Company, to be issued through a share capital increase not exceeding an overall nominal amount of €144,000, corresponding to 144,000 new shares at a par value of €1 each. The new shares will be issued at a price of €54.91.

- Main features of the current share subscription plan

Share subscription features	n°1
Management Board meeting	23/11/2009
Exercise price in €*	54.91
Options exercisable from	22/11/2013
Options lapse on	22/11/2017
Initial number of beneficiaries	15
Restated initial number	13
Total number of options granted	144,000
Total number of options exercised	–
Total number of options cancelled	14,000
Number of options outstanding at 31 March 2012	130,000
Percentage of share capital at 31 March 2012 liable to be issued	0.89%
Number of shares liable to be subscribed by members of the Management Board and the Supervisory Board	45,500
Number of shares liable to be subscribed by members of the Executive Committee	95,000
Terms and conditions of exercise	100% of options exercisable as from 22/11/2013

* The exercise price is the average price of the last twenty trading days preceding the Management Board meeting that approved the allocation, without any discount.

On the allocation date, the fair value of options granted was estimated at €2.8 million, based on the Black & Scholes mathematical model, taking account of the terms and conditions of option allocation.

Calculation assumptions:
- Faiveley Transport share price on the allocation date: €55.39;
- expected maturity of option: 5 years;
- exercise price: €54.91 per option;
- no risk rate known on allocation date: 3.4%;
- full-year volatility of the Faiveley Transport share at 23 November 2009: 33%.

Based on these features, the value of the option is €19.58. In addition, it was assumed that no dividend would be paid during the period.

The IFRS charge (fair value of the plan), estimated at €2.8 million, is spread over the acquisition period of 4 years. The impact of the charge recognised for the year was €0.7 million.

– Free performance-based share allocation plan authorised by the General Meeting of 13 September 2010

Faiveley Transport's Combined General Meeting of 13 September 2010 authorised the Management Board to allocate free performance-based shares, either existing or to be issued, within the limit of 1% of the share capital.

At its meetings of 3 December 2010 and 24 February 2011, the Management Board allocated a total of 69,700 existing shares to 43 beneficiaries. The allocation of the shares will be final at the end of a vesting period of two years, subject to beneficiaries remaining employed by the Group at that date and to the achievement of part or all of performance criteria. This period will be followed by a retention period of a minimum of two years.

Allocation of free performance-based shares	n°1	n°2
Date of Management Board meeting	03/12/2010	24/02/2011
Date of final allocation of the shares	03/12/2012	24/02/2013
Date shares become available	03/12/2014	24/02/2015
Initial number of beneficiaries	38	5
Adjusted initial number	36	3
Total number of shares allocated	64,500	5,200
Total number of shares cancelled	5,000	2,400
Percentage of share capital at 31 March 2012 liable to be issued	–	–
Number of free shares granted to members of the Management Board and the Supervisory Board	15,800	–
Number of free shares granted to members of the Executive Committee after cancellations, if applicable	32,500	–
Terms and conditions of exercise	Determination of % of shares finally allocated at 03/12/2012	Determination of % of shares finally allocated at 24/02/2013

Free performance-based shares allocation plans are instruments that entitle their beneficiaries to acquire a variable number of ordinary shares of the Company, based on the number of exercisable performance shares and on the performance criteria set out.

These criteria are to be tested in November 2012; they have been set for the 2010/2011 and 2011/2012 financial years.

The criteria used to reflect wealth creation for the shareholders were:
- growth in operating profit: growth of 4% per year in profit from recurring operations, before non-recurring items; and
- cash flow generation (debt reduction): cumulative cash flow from operating activities for 2010/2011 and 2011/2012 to represent 85% of the operating profit target.

In the event performance criteria are fully achieved or exceeded, each beneficiary will receive 100% of the number of shares allocated to them.

In the event performance criteria are partly achieved, each beneficiary will receive a percentage of the number of shares allocated to them:
- criteria of operating profit growth:
  - 0% if growth is nil or negative,
  - pro-rata for average growth of between 0% and 4% per year;
- criteria of cash flow generation:
  - 0% if generation is nil or negative,
  - pro-rata for cash flow from operating activities of between 0% and 100% of the target.

The fair value of the performance-based free share plan was estimated on the allocation date by an external consultant, using the Monte Carlo method and taking into account the terms and conditions of allocation of the shares.

Calculation assumptions:
- Model: Monte Carlo method;
- Life of options: 2 years, related to the performance condition;
- Multiple of benchmark EBIT: 9.9x;
- Opportunity cost of capital: between 6.6% [(1)] and 7.1% [(2)];
- Volatility of Faiveley Transport after 2 years, debt-free: 26.6%;
- Management turnover: 15.7%.

The assessment pointed to a percentage of achievement of performance criteria of between 50.7% (with a capital cost of 6.6%) and 51.2% (with a capital cost of 7.1%).

The IFRS charge (plan fair value), estimated at €2.1 million, is spread over the acquisition period of two years. The charge recognised during the financial year was €1 million.

– Free share allocation plan authorised by the General Meeting of 14 September 2011

The Combined General Meeting of 14 September 2011 delegated the Management Board powers for the allocation free of charge of ordinary shares of the Company, either new or already issued, within the limit of 1% of the share capital of the Company on 14 September 2011.

At its meeting held on 4 January 2012, the Management Board decided to implement this delegation and to allocate free shares. This decision was made as part of an employee shareholding plan aimed at a broader population of executives. The programme provides that an employee holding shares in the Company in a personal capacity will be granted two free shares for every share held, not exceeding a limit set for each level of management.

At its meeting held on 5 March 2012, the Management Board set the final list of beneficiaries and the number of free shares to be granted. A total of 79,224 shares are thus to be granted to 151 beneficiaries. The allocation of the shares will be final at the end of a two-year vesting period, or four years for non-French residents, beginning on 5 March 2012.

The fair value of the free share plan was calculated on the allocation date, taking account of the number of shares allocated and the Faiveley Transport share price at 5 March 2012. As a result, the employee benefit granted to beneficiaries was estimated at €2.3 million, also taking account of a probability that free shares be waived due to employees selling the shares they previously owned or employees leaving the Group before the end of the 2-year period, as well as the savings made by Faiveley Transport over two years due to not having to pay dividends for these shares.

This charge will be spread over the vesting period of 2 years. The charge recognised for the year had an impact of €96 thousand.

– Treasury shares

At 31 March 2012, Faiveley Transport held 427,528 treasury shares, including 417,347 in nominative form and 10,181 through its liquidity contract.

Given the purchase cost of the Faiveley Transport shares acquired to service stock option, share subscription or free share allocation plans, the exercise prices granted and the price of the Faiveley Transport share at 31 March 2012, applied to unallocated options, the unrealised capital loss on treasury shares was €3.9 million.

(1) Opportunity cost of the Company's share capital.
(2) Capital cost used by the Bloomberg database on 18 November 2010.

11.2. Translation differences

Translation differences comprise mainly the gains and losses resulting from the translation of the equity of subsidiaries whose functional currency is other than the euro.

– Breakdown of translation differences by currency

	31 March 2012	31 March 2011
Thai Baht	17	18
Swedish Krona	123	(120)
Czech Koruna	2,028	2,139
US Dollar	1,951	1,627
Australian Dollar	810	473
Hong-Kong Dollar	(481)	(693)
Pound Sterling	(2,828)	(4,493)
Brazilian Real	(903)	(410)
Chinese Yuan	3,162	34
Indian Rupee	(3,485)	(1,306)
Korean Won	(381)	(563)
Polish Zloty	(163)	(96)
Others	(48)	(6)
TOTAL	**(198)**	**(3,396)**

11.3. Reserves and net profit

	31 March 2012	31 March 2011
Legal reserve	1,440	1,440
Distributable reserves	(1,886)	(1,886)
Reserves for derivative instruments	(2,380)	(382)
Other reserves	329,064	267,543
Net profit - Group share	47,428	75,683
GROUP RESERVES AND NET PROFIT	**373,666**	**342,398**

11.4. Minority interests

The minority interests break down as follows:

(€ millions)	31 March 2012	31 March 2011
Shanghai Faiveley Railway Technology	14,806	12,876
Amsted Rail - Faiveley LLC	15,541	12,641
Other minority interests	655	131
TOTAL	**31,002**	**25,648**

12. PROVISIONS FOR LIABILITIES AND CHARGES

12.1. Non-current provisions

– Change 2011/2012

	As at 1 April 2011	Change in group structure	Charges to provisions	Reversals provisions used	Reversals provisions not used	Other movements	As at 31 March 2012
Provisions for retirement and other employee benefits	32,999	–	2,009	(2,575)	–	396	32,829
Provisions for charges	2,530	–	1,546	(37)	(380)	(275)	3,384
TOTAL	**35,529**	**–**	**3,555**	**(2,612)**	**(380)**	**121** (1)	**36,213**

(1) Including exchange differences of €437 thousand and reclassifications of €(316) thousand.

12.2. Provisions for retirement benefits

(All amounts in these notes are in millions of Euros unless indicated otherwise)

Charges for the year in respect of defined contribution schemes totalled €20.6 million for the year to 31 March 2012, compared to €19 million for the year to 31 March 2011.

– Summary of provisions

The provisions as at 31 March 2012 of those countries with the most significant commitments are shown in the following table:

	31 March 2012					31 March 2011
(€ millions)	France	Germany	United Kingdom	Other countries	Total	Total
Post-employment benefits	6.0	14.2	6.2	3.1	29.5	30.3
Provisions for other long-term benefits	0.4	1.7	–	0.7	2.8	2.5
TOTAL	**6.4**	**15.9**	**6.2**	**3.8**	**32.3**	**32.8**

– Information regarding the actuarial liability

- Movements in actuarial liability by geographic region

	31 March 2012					31 March 2011
	France	Germany	United Kingdom	Other countries	Total	Total
Actuarial liability at start of period	7.1	14.0	45.3	3.9	70.3	72.4
Cost of services rendered	0.5	–	0.1	0.1	0.7	0.5
Interest on actuarial liability	0.3	0.6	2.5	0.2	3.6	3.9
Employee contributions	–	–	–	–	–	–
Benefits paid	(0.4)	(1.0)	(1.8)	(0.4)	(3.7)	(3.6)
Settlement of the liability	–	–	–	–	–	–
Scheme amendments	–	–	–	–	–	1.5
Acquisitions/transfers/companies joining the Group	–	–	–	–	–	–
Actuarial (gains)/losses	0.7	1.3	1.8	0.3	4.1	(4.8)
Of which experience (gains)/losses	–	–	*0.1*	*0.1*	*0.1*	*(2.0)*
Exchange differences	–	–	2.8	–	2.8	0.5
Other	–	–	–	–	–	–
ACTUARIAL LIABILITY AT END OF PERIOD	**8.2**	**14.9**	**50.7**	**4.1**	**77.9**	**70.3**
Of which:						
funded schemes	–	–	*50.7*	*0.8*	*51.5*	*46.0*
unfunded schemes	*8.2*	*14.9*	–	*3.3*	*26.4*	*24.3*

- Movements in plan assets by geographic region

	31 March 2012					31 March 2011
	France	Germany	United Kingdom	Other countries	Total	Total
Fair value of assets at start of period	–	–	39.4	0.4	39.8	36.3
Employer contributions	–	–	1.6	0.1	1.7	3.2
Employee contributions	–	–	–	–	–	–
Benefits paid	–	–	(1.8)	–	(1.8)	(1.7)
Settlement of the liability	–	–	–	–	–	–
Expected financial revenue	–	–	2.1	–	2.1	2.0
Actuarial gains/(losses)	–	–	0.5	–	0.5	(0.1)
Of which experience gains/(losses)	–	–	*0.5*	–	*0.5*	*(0.1)*
Acquisitions/transfers/companies joining the Group	–	–	–	–	–	–
Exchange differences	–	–	2.4	–	2.4	0.1
FAIR VALUE OF ASSETS AT END OF PERIOD	**–**	**–**	**44.2**	**0.5**	**44.7**	**39.8**

The actual return on investments was €2.6 million in the year to 31 March 2012 (compared to €1.9 million for the year to 31 March 2011).

Contributions in respect of defined benefit schemes in the United Kingdom, Belgium and India were estimated to total €2.0 million for 2012.

The expected return on investments is estimated at €2 million in 2012. A one point increase in the assumed percentage rate of return would generate €0.4 million in additional income.

- Provision for retirement commitments

	31 March 2012					31 March 2011
	France	Germany	United Kingdom	Other countries	Total	Total
Financial cover	8.2	15.0	6.4	3.5	33.1	30.5
Actuarial gains (losses) not recognised	(1.1)	(0.8)	(0.8)	(0.4)	(3.1)	0.5
Past service cost not recognised	(1.2)	–	–	–	(1.2)	(1.2)
Impact of capping of assets	–	–	0.6	–	0.6	0.6
NET PROVISION	**5.9**	**14.2**	**6.2**	**3.1**	**29.4**	**30.4**
Of which provisions for commitments	*5.9*	*14.2*	*6.2*	*3.1*	*29.4*	*30.4*
Of which surplus plan assets	–	–	–	–	–	–

- Past data relating to financial cover and actuarial experience differences for the current and the previous four financial years

	31 March 2012 Total	31 March 2011 Total	31 March 2010 Total	31 March 2009 Total	31 March 2008 Total
Discounted value of commitments	77.9	70.3	72.3	55.4	66.2
Fair value of scheme assets	44.7	39.8	36.3	26.8	34.1
FUNDING SHORTFALL	**33.2**	**30.5**	**36.0**	**28.5**	**32.1**
Experience gains/(losses) in relation to liabilities	*(0.1)*	*1.8*	*1.1*	*(0.1)*	*(0.2)*
Experience gains/(losses) in relation to assets	*0.5*	*(0.1)*	*6.2*	*(5.3)*	*(3.0)*
Experience gains/(losses) in relation to liabilities, as % of commitment	*0%*	*3%*	*2%*	*0%*	*0%*
Experience gains/(losses) in relation to assets, as % of Plan assets	*1%*	*0%*	*17%*	*(20%)*	*(9%)*

– Income statement items

- Breakdown of net pension costs

	31 March 2012					31 March 2011
	France	Germany	United Kingdom	Other countries	Total	Total
Cost of services rendered	0.5	–	0.1	0.1	0.7	0.6
Interest on actuarial liability	0.3	0.6	2.5	0.2	3.6	4.0
Expected financial income	–	–	(2.1)	–	(2.1)	(2.0)
Amortisation of actuarial gains/losses	–	–	–	–	–	–
Amortisation of past service cost	0.1	–	–	–	0.1	–
Reduction/liquidation/transfer of the scheme	–	–	–	–	–	0.1
Impact of capping of assets	–	–	–	–	–	–
Other	–	–	–	–	–	–
NET CHARGE	**0.9**	**0.6**	**0.5**	**0.3**	**2.3**	**2.7**

– Actuarial assumptions

The actuarial assumptions used to measure commitments take into account the demographic and financial conditions specific to each country or Group company.

Discount rates are determined by reference to the yields on AAA bonds with similar durations to those of the commitments as at the measurement date.

The assumptions used for those countries with the most significant commitments are shown in the following table:

	31 March 2012			31 March 2011		
	France	Germany	United Kingdom	France	Germany	United Kingdom
Discount rate	3.85%	3.85%	4.80%	4.80%	4.80%	5.60%
Inflation rate	2.00%	2.00%	3.15%	2.00%	2.00%	3.70%
Average salary increase rate	3.00%	1.60%	4.65%	3.00%	1.60%	5.20%
Expected return on investments	NA	NA	4.54%	NA	NA	5.20%

- The sensitivity of commitments at 31 March 2012 and the cost of services rendered for the next year to a 25 basis point change in the discount rate are summarised as follows:

(€ millions)	0.25% increase in discount rate	0.25% decrease in discount rate
Effect on the value of commitments	(2.661)	2.812
Effect on the cost of services rendered	(0.029)	0.032

- The sensitivity of commitments at 31 March 2012 and the cost of services rendered for the next year to a 25 basis point change in the salary increase rate are summarised as follows:

(€ millions)	0.25% rise in salary increase rate	0.25% reduction in salary increase rate
Effect on the value of commitments	0.324	(0.310)
Effect on the cost of services rendered	0.029	(0.027)

- The expected long term rate of return on plan assets in the United Kingdom, Belgium and India was determined by taking into account the structure of the investment portfolio.

  Currently the investment portfolio contains no Group securities.

The structure of the investment portfolio is as follows:

	31 March 2012	31 March 2011
Shares	47.8%	48.1%
Bonds	49.4%	48.8%
Other assets	2.8%	3.1%
TOTAL	**100.0%**	**100.0%**

- The expected return for each category of assets is as follows:

	31 March 2012
Shares	5.7%
Bonds	3.5%
Other assets	4.3%
Total	4.6%

12.3. Current provisions

– **Change 2011/2012**

	As at 1 April 2011	Change in group structure	Charges to provisions	Reversals: provisions used	Reversals: provisions not used	Other movements	As at 31 March 2012
Provisions for guarantees, after sales service and penalties	66,770	3,353	34,923	(24,911)	(10,633)	1,444	70,946
Provision for termination losses	758	–	–	–	–	649	1,407
TOTAL CONTRACT PROVISIONS	**67,528**	**3,353**	**34,923**	**(24,911)**	**(10,633)**	**2,093**	**72,353**
Provisions for restructuring	1,892	–	1,127	(1,115)	(274)	(2)	1,628
Provisions for other risks	2,718	3,419	1,649	(1,504)	(371)	461	6,372
TOTAL OTHER PROVISIONS	**4,610**	**3,419**	**2,776**	**(2,619)**	**(645)**	**459**	**8,000**
TOTAL	**72,138**	**6,772**	**37,699**	**(27,530)**	**(11,278)**	**2,552** (1)	**80,353**

(1) Including exchange differences of €1,140 thousand and reclassification of €1,412 thousand.

Current provisions primarily relate to provisions for guarantees and after-sales service granted to our customers and litigations and claims on completed contracts. The methods underlying the recognition of these provisions are specified in Note C.15.2.

13. BORROWINGS AND FINANCIAL DEBT

Under the credit agreements, the Faiveley Transport Group must comply with the following four financial conditions:

- leverage ratio (Consolidated Net Debt/Consolidated EBITDA) must not exceed 2.5 at 31 March 2012. At this date, the ratio was 1.77;
- gearing ratio (Consolidated Net Debt /Consolidated Equity): must not exceed 1.50 at 31 March 2012. At this date the ratio was 0.41;
- total bank guarantees must not exceed 22% of the order book. At 31 March 2012, they represented 13.4 %;
- "Consolidated EBITDA/Cost of Consolidated Net Debt" must not be less than 3.5. At 31 March 2012, the ratio was 11.4.

Non-compliance with one of these covenants may result in the debt becoming immediately repayable.

13.1.Breakdown and maturity of non-current and current financial debt

	2011/2012				
	Current portion	Non-current portion			
	Under 1 year	1 to 5 years	Over 5 years	Total	2010/2011
Borrowings	74,740	351,155	–	425,895	367,057
Finance leases	192	775	879	1,846	2,471
Employee profit sharing	65	–	–	65	65
Various other financial debt	65	–	–	65	86
Guarantees and deposits received	–	56	–	56	58
Credit current accounts	2,112	–	–	2,112	2,451
Bank overdrafts	2,405	–	–	2,405	4,771
Short-term facilities (credit balance)	–	–	–	–	–
Invoices factored – not guaranteed	1,023	–	–	1,023	902
TOTAL EXCLUDING FAIR VALUE OF DERIVATIVES	**80,602**	**351,986**	**879**	**433,467**	**377,861**
Fair market value of derivatives – liabilities	14,818	–	–	14,818	15,892
TOTAL	**95,420**	**351,986**	**879**	**448,285**	**393,752**

13.2. Breakdown by currency of non-current and current financial debt

	Total 31 March 2012	Total 31 March 2011
Euro	411,484	360,526
Czech Koruna	20	43
US Dollar	27,366	29,529
Brazilian Real	211	199
Chinese Yuan	9,181	3,441
Russian Rouble	3	14
Indian Rupee	20	–
TOTAL	**448,285**	**393,752**

13.3. Breakdown by interest rate of non-current and current financial debt

– Before implementing hedge instruments

	Au 31 March 2012	Au 31 March 2011
Fixed rate financial debt	8,120	1,137
Variable rate financial debt	425,347	376,724
TOTAL FINANCIAL DEBT (1)	**433,467**	**377,861**

(1) Excluding fair market value of derivatives - liabilities.

– After implementing hedge instruments

	At 31 March 2012	At 31 March 2011
Fixed rate financial debt	227,418	276,535
Variable rate financial debt	206,049	101,326
TOTAL FINANCIAL DEBT (1)	**433,467**	**377,861**

(1) Excluding fair market value of derivatives - liabilities.

13.4. Calculation of net financial debt

	At 31 March 2012	At 31 March 2011
Non-current financial debt	352,865	318,516
Current financial debt	77,174	53,672
Bank overdrafts	2,405	4,771
Invoices factored – not guaranteed	1,023	902
TOTAL FINANCIAL DEBT (A)	**433,467**	**377,861**
Receivables from investments	–	–
Loans	1,302	1,260
Guarantees, deposits and securities paid	5,155	5,411
Various other receivables	3,405	3,019
Current accounts	–	–
TOTAL FINANCIAL RECEIVABLES (B)	**9,862**	**9,690**
Cash and cash equivalents (c)	210,247	198,382
NET FINANCIAL DEBT (A-B-C)	**213,358**	**169,789**
Equity	505,145	453,275
Net debt/equity	**42.2%**	**37.5%**
Sales	900,523	913,872
Net debt/sales	**23.7%**	**18.6%**

In economic terms, net debt should be reduced by the value of treasury shares held for sale as part of the share purchase/subscription option and free share allocation plans.

The liquidation value of these shares was €17.5 million at 31 March 2012, given the exercise prices granted for share purchase/ subscription options and the year-end share price for shares not allocated to this plan.

For accounting purposes, the value of treasury shares held is deducted from equity under IFRS; this amounted to €21 million at 31 March 2012 and €22 million at 31 March 2011.

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

14.1. Financial instruments at 31 March 2012

Main valuation methods used for financial assets and liabilities:

- since most of Faiveley Transport's financial debt bears a variable rate, its fair value (rounded to the nearest credit spread) is equal to nominal values supplemented by interest not yet due;
- due to their short maturity profile, the fair value of trade and other receivables, other current financial assets, current financial debt, cash and cash equivalents and short-term investments is deemed identical to their carrying value.

		Breakdown by category					Fair value classification of instruments[1]		
At 31 March 2012	Carrying value	Non financial assets and liabilities	Loans, receivables and liabilities	At fair value through profit and loss	Available for sale financial assets	Fair value	Level 1	Level 2	Level 3
Shareholdings in unconsolidated subsidiaries	245	–	–	–	245	245	–	–	245
Other non-current financial investments	5,538	–	5,538	–	–	5,538	–	–	–
TOTAL NON-CURRENT ASSETS	**5,783**	**–**	**5,538**	**–**	**245**	**5,783**	**–**	**–**	**245**
Trade receivables	179,402	5,311	174,091	–	–	179,402	–	–	–
Other current assets	18,515	7,865	10,650	–	–	18,515	–	–	–
Current financial assets	4,325	–	4,325	–	–	4,325	–	–	–
Fair value of derivatives - Assets	5,003	–	–	5,003	–	5,003	–	5,003	–
Short-term investments	41,080	–	–	41,080	–	41,080	41,080	–	–
Cash	169,167	–	–	169,167	–	169,167	–	–	–
TOTAL CURRENT ASSETS	**417,492**	**13,176**	**189,066**	**215,250**	**–**	**417,492**	**41,080**	**5,003**	**–**
TOTAL ASSETS	**423,275**	**13,176**	**194,604**	**215,250**	**245**	**423,275**	**41,080**	**5,003**	**245**
Non-current borrowings and financial debt	352,865	–	352,865	–	–	352,865	–	–	–
TOTAL NON-CURRENT LIABILITIES	**352,865**	**–**	**352,865**	**–**	**–**	**352,865**	**–**	**–**	**–**
Current borrowings and financial debt	80,602	–	80,602	–	–	80,602	–	–	–
Fair value of derivatives - Liabilities	14,818	–	–	14,818	–	14,818	–	7,643	7,175[2]
Current liabilities	245,444	20,747	224,697	–	–	245,444	–	–	–
TOTAL CURRENT LIABILITIES	**340,864**	**20,747**	**305,299**	**14,818**	**–**	**340,864**	**–**	**7,643**	**7,175**
TOTAL LIABILITIES	**693,729**	**20,747**	**658,164**	**14,818**	**–**	**693,729**	**–**	**7,643**	**7,175**

(1) Revised IFRS 7 requires that fair value measurements be classified on three levels. The levels of fair value hierarchy reflect the significance of data used for the measurements:
Level 1: prices (unadjusted) of identical assets or liabilities listed on active markets.
Level 2: other data than listed prices covered by Level 1, that can be noted for the asset or liability concerned, either directly (i.e. prices) or indirectly (i.e. data derived from prices).
Level 3: data relating to the asset or liability, not based on observable market data (unobservable data).

(2) This amount corresponds to the financial commitment recognised as part of the recognition of put options held by minority shareholders in Nowe GmbH and Faiveley Transport Schweiz AG (formerly called Urs Dolder AG) at 31 March 2012.

14.2. Financial instruments at 31 March 2011

At 31 March 2011	Carrying value	Breakdown by category: Non financial assets and liabilities	Breakdown by category: Loans, receivables and liabilities	Breakdown by category: At fair value through profit and loss	Breakdown by category: Available for sale financial assets	Fair value	Fair value classification of instruments (1): Level 1	Fair value classification of instruments (1): Level 2	Fair value classification of instruments (1): Level 3
Shareholdings in unconsolidated subsidiaries	245	–	–	–	245	245	–	–	245
Other non-current financial investments	4,698	–	4,698	–	–	4,698	–	–	–
TOTAL NON-CURRENT ASSETS	**4,943**	**–**	**4,698**	**–**	**245**	**4,943**	**–**	**–**	**245**
Trade receivables	183,724	7,814	175,910	–	–	183,724	–	–	–
Other current assets	20,990	7,790	13,200	–	–	20,990	–	–	–
Current financial assets	4,999	–	4,999	–	–	4,999	–	–	–
Fair value of derivatives - Assets	7,619	–	–	7,619	–	7,619	–	7,619	–
Short-term investments	44,925	–	–	44,925	–	44,925	44,925	–	–
Cash	153,457	–	–	153,457	–	153,457	–	–	–
TOTAL CURRENT ASSETS	**415,714**	**15,604**	**194,109**	**206,001**	**–**	**415,714**	**44,925**	**7,619**	**–**
TOTAL ASSETS	**420,657**	**15,604**	**198,807**	**206,001**	**245**	**420,657**	**44,925**	**7,619**	**245**
Non-current borrowings and financial debt	318,516	–	318,516	–	–	318,516	–	–	–
TOTAL NON-CURRENT LIABILITIES	**318,516**	**–**	**318,516**	**–**	**–**	**318,516**	**–**	**–**	**–**
Current borrowings and financial debt	59,345	–	59,345	–	–	59,345	–	–	–
Fair value of derivatives - Liabilities	15,892	–	–	15,892	–	15,892	–	8,052	7,840(2)
Current liabilities	237,359	24,997	212,362	–	–	237,359	–	–	–
TOTAL CURRENT LIABILITIES	**312,596**	**24,997**	**271,707**	**15,892**	**–**	**312,596**	**–**	**8,052**	**7,840**
TOTAL LIABILITIES	**631,112**	**24,997**	**590,223**	**15,892**	**–**	**631,112**	**–**	**8,052**	**7,840**

(1) Revised IFRS 7 requires that fair value measurements be classified on three levels. The levels of fair value hierarchy reflect the significance of data used for the measurements:
Level 1: prices (unadjusted) of identical assets or liabilities listed on active markets.
Level 2: other data than listed prices covered by Level 1, that can be noted for the asset or liability concerned, either directly (i.e. prices) or indirectly (i.e. data derived from prices).
Level 3: data relating to the asset or liability, not based on observable market data (unobservable data).

(2) This amount corresponds to the financial commitment recognised as part of the recognition of put options held by minority shareholders in Nowe GmbH and Faiveley Transport Schweiz AG (formerly called Urs Dolder AG) at 31 March 2011.

14.3. Financial risk management

The Faiveley Transport Group's cash policy is based on overall financial risk management principles and provides specific strategies for areas such as exchange risk, interest rate risk, raw materials risk, credit risk and liquidity risk.

The Group also uses derivative instruments, mainly forward purchases and sales of currencies, interest rate swaps or caps and exchange rate contracts or raw material swaps. The aim of these instruments is to manage the exchange, interest rate and raw material risks associated with the Group's activities and financing.

The Group's policy is not to enter into derivative instruments for speculative purposes.

The Supervisory Board of Faiveley Transport examines risk management principles as well as policies covering certain specific fields such as exchange risk, interest rate risk, raw materials risk, credit risk and liquidity risk. These policies are summarised below.

The market values of interest rate and foreign exchange derivative instruments have been measured based on year-end market prices. They have been appraised by an independent expert.

14.4. Market risks

a) Exchange risks

The Group operates in foreign countries and is therefore exposed to exchange risk as a result of its exposure to a number of currencies.

The major currencies concerned are the Chinese Yuan, the American Dollar, the Pound Sterling, the Czech Koruna and the Swedish Krona.

The management of exchange risk on commercial contracts is centralised by the parent company's Treasury department and comprises two parts: the certain and the uncertain risk.

- Exchange risk management relating to tenders in foreign currencies (uncertain risk)

The Faiveley Transport Group is required to submit tenders denominated in foreign currencies. The Group's hedging policy is not to use hedge instruments during the offer phase, unless when specifically decided by Management. The aim is to manage the exchange risk through normal commercially available means. If necessary, the Group Treasury department uses mainly exchange options.

- Exchange risk management relating to commercial contracts (certain risk)

Commercial contracts in foreign currencies (most often successful tenders) are hedged by the Group Treasury Department from contractual commitment. The instruments used primarily include forward purchases and sales. Treasury may also use options.

The Group's policy is to systematically hedge the full value of future transactions expected in every major currency. The minimum trigger threshold for a foreign exchange hedge is €250 thousand.

Various flows are hedged against, at a minimum of 80%, based on the annual budget.

In addition to commercial contracts, all financial positions and management fees deemed significant are systematically hedged against.

- Forward sales hedging financial and commercial transactions as at 31 March 2012

	Nominal value		Fair value
	€ thousands	Local currency thousands	€ thousands
Australian Dollar	7,660	9,917	(1)
Swiss Franc	1,509	1,850	(28)
Chinese Yuan	20,082	172,100	(329)
Czech Koruna	7,013	174,000	(19)
Pound Sterling	22,208	19,000	(521)
Hong-Kong Dollar	16,243	172,000	(341)
Indian Rupee	422	27,300	28
Polish Zloty	767	3,400	(36)
Russian Rouble	506	20,000	2
Swedish Krona	11,110	99,888	(70)
Singapore Dollar	23,598	28,400	–
US Dollar	126,199	168,721	(37)
TOTAL	**237,317**	**–**	**(1,352)**

- Forward purchases hedging financial and commercial transactions as at 31 March 2012

	Nominal value		Fair value
	€ thousands	Local currency thousands	€ thousands
Australian Dollar	7,082	9,190	(48)
Swiss Franc	1,313	1,610	24
Chinese Yuan	15,308	127,800	(134)
Czech Koruna	35,703	897,929	569
Pound Sterling	28,304	24,317	825
Hong-Kong Dollar	21,139	221,883	253
Indian Rupee	3,221	232,300	(1)
Polish Zloty	1,508	6,750	103
Swedish Krona	45,728	411,490	374
US Dollar	53,378	70,857	390
TOTAL	**212,683**	**–**	**2,356**

- Sensitivity analysis

The following table presents, at 31 March 2012, the sensitivity to a 10% positive or negative change in the euro against other currencies:

- the effect on pre-tax profit only applies to financial assets and liabilities recognised in the balance sheet, which are denominated in a currency other than the functional currency of their controlling entity and which are not hedged against;
- the effect on equity results from the efficient portion of derivative instruments qualifying as cash flow hedges.

Currency	Movement in € exchange rate	Effect on profit from recurring operations (before tax)	Effect on equity reserves
US Dollar	10%	(189)	–
	(10%)	155	–
Australian Dollar	10%	40	(156)
	(10%)	(49)	156
Hong-Kong Dollar	10%	205	–
	(10%)	(211)	–
Brazilian Real	10%	(295)	–
	(10%)	360	–
Swedish Krona	10%	278	1,089
	(10%)	(359)	(1,089)
Pound Sterling	10%	57	(516)
	(10%)	(69)	516
Russian Rouble	10%	–	371
	(10%)	–	(472)

The impact of fluctuations in the Euro against other currencies is not material.

b) Interest rate risk

The main interest rate risk to which the Group is exposed originates from the syndicated debt, excluding the revolving facility.

To manage its risk, the Treasury department has implemented a hedging strategy using interest rate swaps and options.

The exposure of interest rates on loans in Euros is hedged for between 66% and 85% of the total debt bearing a Euro interest rate, depending on fluctuations for the 2012/2013 period. The exposure of interest rates on loans in US Dollar is 94%.

The estimated cost of bank debt of the Group in 2012/2013 is 2.13% for Euro-denominated debt and 3.19% for US Dollar-denominated debt, including hedges.

Considering the amortisation profile of the syndicated facility and interest rate hedges, the net exposure at 31 March 2012 is as follows:

€-denominated debt	Financial debt	Hedge instruments		Net exposure	
	Variable rate	Fixed rate	Variable rate	Fixed rate	Variable rate
Less than 1 year	32,440	32,440	–	–	–
1 to 2 years	32,440	32,440	–	–	–
2 to 3 years	32,440	32,440	–	–	–
More than 3 years	202,608	30,000	–	–	172,608
TOTAL EUR	**299,928**	**127,320**	**–**	**–**	**172,608**[1]

(1) Sensitivity analysis of net exposure (€172.6 million):
A 100 basis points increase in the reference "Euribor 3 months" interest rate would result in a full-year increase of €1.7 million in the interest expense.

USD-denominated debt	Financial debt Variable rate	Hedge instruments Fixed rate	Hedge instruments Variable rate	Net exposure Fixed rate	Net exposure Variable rate
Less than 1 year	3,580	3,580	–	–	–
1 to 2 years	3,580	–	–	–	3,580
2 to 3 years	3,580	–	–	–	3,580
More than 3 years	24,955	–	–	–	24,955
TOTAL USD	**35,695**	**3,580**	**–**	**–**	**32,115**(1)

(1) Sensitivity analysis of net exposure (USD 32.1 million):
A 100 basis points increase in the reference "Libor USD 3 months" interest rate would result in a full-year increase of USD 0.32 million in the interest expense.

All revolving credit facilities, whether drawn or undrawn, as well as the bridge loan bear a variable interest rate and have not been hedged.

- Instruments recognised in equity

	On Euro loans		On USD loans			
	Nominal (€ thousands)	Fair value (€ thousands)	Nominal (currency thousands)	Fair value (currency thousands)	Nominal (€ thousands)	Fair value (€ thousands)
Swap	150,000	(2,462)	35,791	(589)	26,798	(441)
Tunnel	42,500	(561)	–	–	–	–
Cap	70,000	(204)	–	–	–	–
TOTAL	**262,500**	**(3,227)**	**35,791**	**(589)**	**26,798**	**(441)**

- Sensitivity analysis

The Group has implemented a diversified interest rate risk management policy aimed at limiting the impact of potential interest rate increases on its cash flow. As at 31 March 2012, the servicing of projected debt, net of hedges put in place, would limit the impact of a 1% increase in interest rates on debt and hedges to €1 million.

The impact on equity is €1.8 million with a 0.5% interest rate increase.

c) Risk on raw materials

The Faiveley Transport Group is exposed to increases in the costs of raw materials such as steel, aluminium and copper, and to increases in transportation costs.

The Group has already anticipated these effects, both in terms of its purchasing policy and in the preparation of its tenders. As regards contracts relating to projects, price indexation mechanisms enable the Group to pass on a large part of the increases in raw material costs.

However, the Faiveley Transport Group's sintered brake pads activity is exposed to fluctuations in the price of copper. Contracts have been entered into to hedge almost 30% of the 2012/2013 through euro-denominated raw material swaps.

- Sensitivity analysis

A 1% increase in the price of copper would have a negative impact of €14.5 thousand on EBITDA.

d) Derivative instruments

- The fair value of derivative instruments for hedging exchange, interest rate and raw materials risks reflected in the balance sheet was as follows

At 31 March 2012	Financial instruments - Assets	Financial instruments - Liabilities	Unrealised capital gains/ (losses) taken to equity
Interest rate hedges(1)	–	**3,623**	**(3,557)**
Raw material hedges(1)	–	**4**	**(4)**
Foreign exchange hedges	**5,003**	**4,018**	**116**
• *fair value hedges*	*3,270*	*3,006*	–
• *cash flow hedges*	*184*	*78*	*116*
• *not eligible for hedge accounting*	*1,549*	*934*	–
TOTAL	**5,003**	**7,645**	**(3,445)**

(1) Cash flow hedges.

At 31 March 2011	Financial instruments - Assets	Financial instruments - Liabilities	Unrealised capital gains/ (losses) taken to equity
Interest rate hedges	**1,135**	**1,603**	**(635)**
Raw material hedges	**–**	**25**	**(25)**
Foreign exchange hedges	**6,484**	**6,424**	**278**
• *fair value hedges*	*4,776*	*4,615*	*–*
• *cash flow hedges*	*352*	*102*	*278*
• *not eligible for hedge accounting*	*1,356*	*1,707*	*–*
TOTAL	**7,619**	**8,052**	**(382)**

- Movement in equity reserve (excl. deferred tax)

	Amount 1 April 2011	Movement in the year	Amounts recycled to income statement	Amount 31 March 2012
Interest rate hedges	(635)	(2,373)	(549)	(3,557)
Foreign exchange hedges	278	(152)	(10)	116
Raw material hedges	(25)	21	–	(4)
TOTAL	**(382)**	**(2,504)**	**(559)**	**(3,445)**

- Horizon for release of amounts recorded in equity at 31 March 2012

The amount recorded in equity, in respect of exchange rate derivatives (€116 thousand), will be recycled to the income statement in the year ending 31 March 2013.

The amount recorded in equity, in respect of interest rate derivatives €(3,557 thousand), will be released to the income statement between 31 March 2012 and 31 March 2017 according to the maturity of the flows hedged.

The amount taken to equity in relation to raw materials €(4 thousand), will be transferred to the income statement for the year to 31 March 2013.

14.5. Credit risk

Owing to its commercial activities, the Faiveley Transport Group is exposed to credit risk, in particular the risk of default on the part of its customers.

The Group only enters into commercial relationships with third parties whose financial position is known to be healthy. The Group's policy is to verify the financial health of those customers wishing to obtain credit.

In the case of derivative instruments and transactions that generate cash when they are unwound, the counterparties are limited to financial institutions that finance the Group.
In addition, the Faiveley Transport Group makes use of factoring arrangements in France, Germany, Spain and the UK. Factoring enables the Group to sell, without recourse, part of its receivables to the factoring company and to banks. This selling without recourse has enabled the Group to improve trade receivables recovery and to transfer the risk of default or bankruptcy on the part of customers or other debtors to the factor.

At 31 March 2012, receivables sold without recourse totalled €93 million, and the amount of receivables sold and not guaranteed was €1 million.

As regards the risk associated with financial assets, the Group's maximum exposure is equal to their carrying value.

14.6. Liquidity risk

Prudent liquidity risk management requires the Group to retain a sufficient level of cash and securities that can be traded in a market, to have adequate financial resources due to the implementation of appropriate credit facilities and to be in a position to unwind positions in the market. Due to the dynamism of the Group's activities, the Treasury department aims to maintain financial flexibility by retaining open but unused credit lines.

During the first half of the year, the Group amended the agreement governing the syndicated credit established in December 2008 to extend loan maturity by 2.5 years, i.e. until 23 June 2016 instead of 23 December 2013 (see above Note B.1 Significant events).

During the second half of the year, the Group set up two medium-term credit facilities totalling €35 million and a bridge loan of €30 million. These fundings, supplemented by a syndicated revolving facility of €49 million, were used to pre-finance the acquisition of US company Graham-White Manufacturing Co. last February. The final funding package is to be partly financed in the US via a private placement of USD 75 million. At 31 March 2012, two conditions precedent had not been met; both were lifted on 12 April, which allowed for the repayment of the bridging loan and a significant portion of the medium-term facilities.

At 31 March 2012, the Group complied with all financial conditions required by all credit agreements.

The Group estimates that the cash flows generated by its operating activities, cash and funds available via existing credit lines will be sufficient to cover the expenditure and investment necessary for its operations, to service its debt and to pay dividends. Conversely, the Group may have to borrow to finance potential acquisitions.

a) Available cash and cash equivalents

	31 March 2012	31 March 2011
Available credit lines (a)	56,754	83,564
Parent company cash (b)	27,100	37,211
Subsidiaries cash and cash equivalents (c)	182,129	160,271
AVAILABLE CASH AND CASH EQUIVALENTS (1) = (A+B+C)	**265,983**	**281,046**
Borrowings due in less than one year (d)	77,174	53,441
Available credit lines maturing in less than one year and bank overdrafts (e)	110,196	88,995
NET CASH AND CASH EQUIVALENTS AVAILABLE OVER THE NEXT YEAR (1-D-E)	**78,613**	**138,610**

Cash and cash equivalents include unused factoring cash of €49.2 million (net of non-guaranteed receivables factored).

The decline in available cash and cash equivalents was primarily due to the acquisition of Graham-White Manufacturing Co.

Financial debt of less than one year is disclosed in paragraph 13.1 (excluding bank overdraft, fair value of derivatives and invoices factored and not guaranteed).

Available credit lines represent credit lines granted by the banks and available immediately to the subsidiaries or the parent company. At 31 March 2012, €2.4 million was used in respect of a bank overdraft.

b) Maturity dates of financial liabilities at 31 March 2012

At 31 March 2012	Carrying value	Under 1 year	1 to 5 years	Over 5 years	Non-financial liabilities
Liability financial instruments:					
Borrowings	425,592	74,437	351,155	–	–
Finance leases	1,846	192	775	879	–
Employee profit sharing	65	65	–	–	–
Various other financial liabilities	65	65	–	–	–
Guarantees and deposits received	56	–	56	–	–
Credit current accounts	2,112	2,112	–	–	–
Bank overdrafts	2,405	2,405	–	–	–
Fair value of derivatives – liabilities	15,485	15,485	–	–	–
Invoices factored and not guaranteed	1,023	1,023	–	–	–
Current liabilities	244,522	225,372	–	–	19,150
Interest on liabilities	303	303	–	–	–
TOTAL	**693,474**	**321,459**	**351,986**	**879**	**19,150**

- Future cash flow

At 31 March 2012	Value	Under 1 year	1 to 2 years	2 to 3 years	Over 3 years
Borrowings	425,560	73,721	36,070	35,902	279,867
Finance leases	1,846	198	183	198	1,276
Employee profit sharing	65	65	–	–	–
Various other financial liabilities	65	65	–	–	–
Guarantees and deposits received	56	–	56	–	–
Credit current accounts	2,112	2,112	–	–	–

- Forecast future cash flows of interest and interest rate hedges

At 31 March 2012	Value	Under 1 year	1 to 2 years	2 to 3 years	Over 3 years
Interest on liabilities	19,572	4,726	4,425	4,593	5,828
Cash flow from liability financial instruments	3,468	2,303	1,014	151	–

c) Maturity dates of financial liabilities at 31 March 2011

At 31 March 2011	Carrying value	Under 1 year	1 to 5 years	Over 5 years	Non-financial liabilities
Liability financial instruments:					
Borrowings	366,811	50,206	316,605	–	–
Finance leases	2,471	616	774	1,081	–
Employee profit sharing	65	65	–	–	–
Various other financial liabilities	86	86	–	–	–
Guarantees and deposits received	57	1	56	–	–
Credit current accounts	2,451	2,451	–	–	–
Bank overdrafts	4,771	4,771	–	–	–
Fair value of derivatives – liabilities	15,892	15,892	–	–	–
Invoices factored and not guaranteed	902	902	–	–	–
Current liabilities	226,953	211,986	–	–	14,967
Other liabilities	10,251	221	–	–	10,030
Interest on liabilities	246	246	–	–	–
TOTAL	**630,956**	**287,443**	**317,435**	**1,081**	**24,997**

- Future cash flows

At 31 March 2011	Value	Under 1 year	1 to 2 years	2 to 3 years	Over 3 years
Borrowings	368,927	50,206	49,221	269,500	–
Finance leases	2,471	632	190	183	1,466
Employee profit sharing	65	65	–	–	–
Various other financial liabilities	86	86	–	–	–
Guarantees and deposits received	57	1	56	–	–
Credit current accounts	2,451	2,451	–	–	–

- Forecast future cash flows of interest and interest rate hedges

At 31 March 2011	Value	Under 1 year	1 to 2 years	2 to 3 years	Over 3 years
Interest on liabilities	24,028	7,625	9,390	7,013	–
Cash flow from liability financial instruments	1,554	1,236	280	38	89

14.7. Contribution to net finance income/(cost)

			Revaluation				
At 31 March 2012	Interest	Dividends	Profits	Losses	Disposals	Exchange gain or loss and other	Net finance income
Loans and receivables	1,540	–	–	–	–	(3,376)	(14,985)
Payables at amortised cost	(13,150)	–	–	–	–		
Instruments measured at fair value through profit or loss	(103)	,	1,294	(52)	926	160	2,225
Assets held for sale	–	–	–	–	–	–	–
Other	(2,436)	11	–	–	–	–	(2,425)
TOTAL	**(14,148)**	**11**	**1,294**	**(52)**	**926**	**(3,216)**	**(15,185)**

At 31 March 2011	Interest	Dividends	Revaluation Profits	Revaluation Losses	Disposals	Exchange gain or loss and other	Net finance income
Loans and receivables	2,019	–	–	–	–	1,161	(9,166)
Payables at amortised cost	(12,346)	–	–	–	–		
Instruments measured at fair value through profit or loss	(518)	–	193	(1,204)	94	(496)	(1,931)
Assets held for sale	–	–	–	–	–	–	–
Other	(2,334)	7	–	–	–	–	(2,326)
TOTAL	**(13,178)**	**7**	**193**	**(1,204)**	**94**	**664**	**(13,424)**

15. CURRENT LIABILITIES

	Total 31 March 2012	Total 31 March 2011
Trade payables	162,987	152,248
Tax and social security liabilities	61,271	59,893
Accrued credit notes	843	922
Deferred income	594	940
Accrued expenses	12,531	13,105
Due to suppliers of non-current assets	384	166
Dividends payable	55	55
Other operating liabilities	6,779	10,031
TOTAL	**245,444**	**237,360**

At 31 March 2012, "Trade payables" included €17.7 million of work in progress creditors, compared to €13 million at 31 March 2011.

16. FACTORING

In order to optimise the cost of the Group's bank financing, Faiveley Transport Tours, Faiveley Transport Amiens, Faiveley Transport Gennevilliers, Faiveley Transport NSF, Faiveley Transport Italia, Faiveley Transport Iberica, Faiveley Transport Leipzig, Faiveley Transport Witten and Faiveley Transport Birkenhead sell their trade receivables to a factor.

Factoring resulted in a €93,201 thousand reduction in trade receivables at 31 March 2012. In addition, available and uncalled cash with the factor amounted to €50,205 thousand and is included in cash and cash equivalents.

However, the portion of receivables sold and not guaranteed was recorded as financial debt under "current borrowings and financial liabilities" for an amount of €1,023 thousand. The risk incurred by the Group in respect of receivables sold and not guaranteed relates to the non-collection of these receivables.

17. SEGMENT REPORTING

At 31 March 2008, Faiveley S.A. only held shares in Faiveley Transport and had no relationship with the operating subsidiaries.

Following the transactions completed on 23 December 2008, Faiveley S.A. decided to proceed with the dissolution of Faiveley Transport without liquidation. At 31 March 2009, the net assets of Faiveley Transport were transferred to Faiveley S.A. (subsequently renamed Faiveley Transport) by a simple merger transaction by means of a complete transfer of its assets and liabilities, therefore eliminating all intermediate companies between the Group's parent company and operating entities.

Due to this, segment reporting as at 31 March 2010 only concerns the railway sector.

17.1. By business segment

– Income Statement

	2011/2012	2010/2011
Continuing operations:		
Sales	900,523	913,872
Operating profit	93,272	126,666
Net finance income/(cost)	(15,185)	(13,425)
Income tax	(26,912)	(32,096)
Share of profit of associates	–	–
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**51,175**	**81,145**
Discontinued operations:		
Profit before tax	–	–
Income tax	–	–
Gain/(loss) on disposal	–	–
NET PROFIT OF DISCONTINUED OPERATIONS	–	–
CONSOLIDATED NET PROFIT	**51,175**	**81,145**
Depreciation and amortisation for the period	14,947	15,503

– Balance Sheet

	31 March 2012	31 March 2011
Property, plant and equipment and intangible assets, net	757,949	670,465
Non-current financial assets	5,784	4,945
Deferred tax assets	43,598	29,848
SUB-TOTAL NON-CURRENT ASSETS	**807,331**	**705,258**
Inventories and receivables (excluding tax)	418,261	392,938
Other current assets	38,891	40,607
Cash and cash equivalents	210,246	198,382
SUB-TOTAL CURRENT ASSETS	**667,398**	**631,927**
TOTAL ASSETS	**1,474,729**	**1,337,185**
Equity	**505,145**	**453,275**
Employee benefits and other non-current provisions	36,213	35,529
Deferred tax liabilities	22,090	17,508
Non-current financial debt	352,865	318,516
SUB-TOTAL NON-CURRENT LIABILITIES	**411,168**	**371,553**
Current provisions	80,353	72,138
Current financial debt	95,420	75,236
Advances, prepayments and non-financial liabilities (excluding tax)	370,118	350,294
Other current liabilities	12,525	14,689
SUB-TOTAL CURRENT LIABILITIES	**558,416**	**512,357**
TOTAL EQUITY AND LIABILITIES	**1,474,729**	**1,337,185**
Acquisitions of property, plant and equipment and intangible assets (excluding goodwill) for the period	17,369	17,072
Workforce	5,469	5,114

17.2. By geographic region

– 2011/2012 financial year

- Contribution by business segment and geographic region of origin

	France	Europe (excl. France)	Americas	Asia-Pacific	Total railway business
Sales	216,993	395,174	95,781	192,575	900,523
Closing balance of property, plant and equipment and intangible assets (excluding goodwill)	36,463	29,418	33,078	10,009	108,968
Acquisition of property, plant and equipment and intangible assets (excluding goodwill)	9,478	4,053	1,454	2,384	17,369
Amortisation and depreciation of property, plant and equipment and intangible assets (excluding goodwill)	5,856	5,080	1,402	2,609	14,947

– 2010/2011 financial year

- Contribution by business segment and geographic region of origin

	France	Europe (excl. France)	Americas	Asia-Pacific	Total railway business
Sales	203,878	406,367	72,414	231,213	913,872
Closing balance of property, plant and equipment and intangible assets (excluding goodwill)	65,632	30,523	22,193	10,090	128,438
Acquisition of property, plant and equipment and intangible assets (excluding goodwill)	8,937	3,781	1,593	2,761	17,072
Amortisation and depreciation of property, plant and equipment and intangible assets (excluding goodwill)	6,079	6,097	1,147	2,180	15,503

18. SALES

	31 March 2012	31 March 2011
Sales of products associated with contracts	863,885	881,937
Sales of services	36,638	31,935
TOTAL [1]	**900,523**	**913,872**

(1) Of which sales of "Services" related products of €315 million to 31 March 2012 and €299 million to 31 March 2011.

19. COST OF SALES

	31 March 2012	31 March 2011
Direct labour	(76,730)	(69,337)
Raw materials	(377,946)	(378,314)
Fixed costs	(59,053)	(56,217)
Procurement costs	(44,430)	(44,477)
Engineering costs	(59,067)	(53,954)
Other direct costs	(40,482)	(40,532)
Change in projects in progress	19,870	15,659
Net change in project provisions (charge/reversal)	(24,290)	(25,045)
Net change in provisions for losses on completion	(4,594)	(187)
TOTAL COST OF SALES	**(666,722)**	**(652,404)**

20. OTHER INCOME AND EXPENSES FROM RECURRING OPERATIONS

	31 March 2012	31 March 2011
Royalties	1,456	1,603
Writebacks of provisions for other liabilities	891	671
Insurance compensation	47	133
Other operating income	293	82
TOTAL OTHER INCOME	**2,687**	**2,489**
Royalties	(162)	(15)
Doubtful debts	(2,475)	(2,379)
Charges to provisions for other liabilities	(3,335)	(875)
Inventory writedowns	(4,194)	(3,468)
Other expenses	(1,905)	–
TOTAL OTHER EXPENSES	**(12,071)**	**(6,737)**
NET OTHER INCOME AND EXPENSES FROM RECURRING OPERATIONS	**(9,384)**	**(4,248)**

The deterioration in this item during the financial year was primarily due to the increase in provisions unrelated to contracts, the reclassification to this heading of profit-sharing costs and the decline in other operating income.

21. RESTRUCTURING COSTS AND GAINS AND LOSSES ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

• Restructuring costs

Restructuring costs for the period totalled €1.2 million, compared to €2.6 million in the previous financial year. During the financial year 2011/2012, these restructuring costs primarily related to the reorganisation of Faiveley Transport Italia.

• Disposal of property, plant and equipment and intangible assets

	31 March 2012	31 March 2011
Sales price of assets sold	189	155
Carrying value of assets sold	(393)	(630)
TOTAL	**(204)**	**(475)**

22. NET FINANCE INCOME/(COST)

	31 March 2012	31 March 2011
Gross cost of financial debt	(12,968)	(12,008)
Income from cash and cash equivalents	2,268	1,230
NET COST OF FINANCIAL DEBT	**(10,700)**	**(10,778)**
Financial instrument income	4,414	3,440
Income linked to exchange differences	9,552	20,750
Proceeds from sale of marketable securities	–	94
Reversal of financial provisions	153	314
Income from vendor loan	96	410
Dividends received	11	7
Other	103	379
OTHER FINANCE INCOME	**14,330**	**25,395**
Financial instrument charges	(3,180)	(4,926)
Charges linked to exchange differences	(12,778)	(19,589)
Interest charges on retirement commitments	(1,046)	(1,567)
Charges to financial provisions	(3)	(616)
Charges on bank guarantees	(725)	(766)
Reversal of discounting the value of put options held by minority shareholders	(665)	–
Other	(419)	(576)
OTHER FINANCE COSTS	**(18,815)**	**(28,041)**
NET FINANCE COST	**(15,185)**	**(13,425)**

The increase in the net finance cost for the year was due to:
- the net cost of financial debt for the year, i.e. €(10.7) million compared to €(10.8) million in the previous year;
- a slightly unfavourable net realised exchange loss, offset by exchange gains, for €(0.3) million;
- the increase in value of derivatives, decreased by unrealised exchange losses, resulting in a net impact of €(1.7) million;
- other financial income and expense items, comprising bank guarantees, interest on pension commitments, the effect of the reversal of discounting the value of put options held by minority shareholders and other financial income and expenses, resulting in a net impact of €(2.5) million.

23. INCOME TAX

23.1. Analysis by type

	31 March 2012	31 March 2011
Current tax - continuing operations	29,761	31,159
Deferred tax - continuing operations	(2,849)	937
TOTAL INCOME TAX - CONTINUING OPERATIONS	**26,912**	**32,096**
Tax on discontinued operations	–	–
TOTAL TAX	**26,912**	**32,096**

For the year ended 31 March 2012, the effective tax rate was 34.5% (compared with 28.3% for the year ended 31 March 2011) and the income tax rate paid was 38.1% (compared with 27.5% for the year ended 31 March 2011). .

23.2. Effective tax rate

	31 March 2012	31 March 2011
Pre-tax profit from continuing operations	**78,087**	**113,241**
Pre-tax profit from operations sold or held for sale	–	–
Statutory tax rate of the parent company	34.43%	33.33%
THEORETICAL TAX CREDIT / CHARGE	**(26,885)**	**(37,743)**
Impact of:		
• permanent differences between profits for accounting purposes and taxable profits	(1)	708
• differences between the tax rates applicable to the parent company and to the subsidiaries	1,298	6,158
• impact of other taxes (CVAE in France and IRAP in Italy)	(3,272)	(3,082)
• the liability method (changes in tax rates)	(197)	237
• tax saving achieved through offset of tax losses carried forward	–	757
• recognition of future savings on tax losses and prior temporary differences (FT Brasil and FT USA)	5,428	–
• change in deferred tax assets in respect of tax losses carried forward not recognised for the financial year	(1,614)	(59)
• change in deferred tax assets not recognised	(1,242)	(132)
• tax credits	113	189
• tax adjustments in respect of earlier periods	(548)	(502)
• other differences	8	1,373
TAX CHARGE	**(26,912)**	**(32,096)**
Effective tax rate	**34.5%**	**28.3%**

At 31 March 2012, income tax was affected by the reclassification of CVAE during the 2010/2011 financial year (see Note C-6.4 above). The impact on the financial statements for the year was an income tax charge of €1,962 thousand and a net deferred tax asset of €140 thousand.

23.3. Breakdown of tax losses carried forward (tax bases) by expiry date

Year ended	31 March 2012	31 March 2011
Losses expiring within 4 years	7,109	521
Losses expiring in 5 years and over	7,245	5,524
Losses that may be carried forward indefinitely	26,916	28,375
TOTAL	**41,270**	**34,420**
Tax losses not recognised as deferred tax assets	*24,767*	*28,370*
Tax losses recognised as deferred tax assets	*16,503*	*6,050*
Limits on the use of tax losses recognised as deferred tax assets:		
Losses expiring within 4 years	*5,743*	*520*
Losses expiring in 5 years and over	*438*	*5,524*
Losses that may be carried forward indefinitely	*10,322*	*6*

24. SHARE OF PROFIT/(LOSS) FROM OPERATIONS SOLD OR HELD FOR SALE

Nil.

25. PAYROLL COSTS AND WORKFORCE

	31 March 2012	31 March 2011
Salaries	179,161	167,547
Social security charges	51,127	46,351
Retirement and other post-employment benefits	5,886	6,074
Charges associated with share-based payments	–	141
TOTAL PAYROLL COSTS	**236,174**	**220,113**
Managers	953	976
Supervisors and employees	2,414	2,129
Operatives	2,102	2,009
TOTAL WORKFORCE	**5,469**	**5,114**

26. POST-BALANCE SHEET EVENTS

On 12 April 2012, Faiveley Transport carried out a USD 75 million bond issue through a private placement made up of two tranches:

- USD 30 million with a 10-year final maturity, redeemable between 2017 and 2022;
- USD 45 million of bullet loan with a 10-year maturity.

This private placement, which bears an average fixed rate of 4.91%, has been subscribed by two US-based institutional investors. It allowed Faiveley Transport to secure long-term USD funding requirements, particularly those related to the acquisition of Graham-White Manufacturing Co. finalised last February.

27. RELATED-PARTY TRANSACTIONS

The aim of this note is to present the material transactions entered into between the Group and its related parties as defined by IAS 24.

The parties related to the Faiveley Transport Group are the consolidated companies (including those companies that are proportionally consolidated and those consolidated using the equity method), the entities and individuals that control Faiveley Transport and the Group's senior management.

Transactions entered into between the Faiveley Transport Group and its related parties are at arm's length terms.

27.1. Transactions with related companies

A list of consolidated companies is provided in Note G.

Transactions carried out and balances outstanding with fully consolidated companies at the balance sheet date are fully eliminated on consolidation.

Only the following are included in the notes below:

- data relating to such intra-Group transactions, when they involve companies over which the Group exercises joint control (proportionally consolidated) and those over which the Group has significant influence (accounted for using the equity method) concerning the portion not eliminated on consolidation;
- material transactions with other Group companies.

a) Transactions with consolidated companies

- With joint ventures

Joint ventures are proportionally consolidated companies:

- Qingdao Faiveley Sri Rail Brake Co. Ltd.: 50/50 joint venture formed in 2006 to enable the Group to penetrate the Chinese brake market.
- Datong Faiveley Couplers System Co. Ltd.: 50/50 joint venture formed in 2007 with Datong Yida Foundry Co. Ltd, with the aim of manufacturing and selling couplers.
- ShiJiaZhuang JiaXiang Precision Machinery Co. Ltd.: on 20 December 2007, the Group acquired 50% of the shares of this Chinese company which specialises in the development and production of compressors for the railway market.

Transactions with joint ventures not eliminated on consolidation:
The consolidated financial statements include transactions carried out by the Group with its joint ventures as part of its normal business activities.

These transactions are normally carried out at arm's length terms.

€ thousands	31 March 2012	31 March 2011
Sales	8,187	13,093
Operating receivables	5,520	5,017
Operating payables	(379)	(1,210)

Contribution of joint ventures to the consolidated financial statements

€ thousands	31 March 2012	31 March 2011
Non-current assets	1,748	1,508
Current assets	24,414	19,500
Equity	9,202	4,576
Other non-current liabilities	16	19
Current liabilities	13,328	12,797
Sales	30,228	34,965

- With associates

Nil.

b) With the companies that control Faiveley Transport

- With François Faiveley Participations

Contract of assistance
Under the terms of a contract of assistance, Faiveley Transport recognised the following amounts in its expenses and income for the financial year, corresponding to the rebilling of rent and the provision of services.

€	Faiveley Transport expenses	Faiveley Transport income
Contract of assistance, provision of services	365,000	1,020
Re-billing of rent and utility expenses	–	2,150

Fraction of financial investments, receivables, debts, expenses and income pertaining to these related companies:

€ thousands	2011/2012	2010/2011
Trade receivables	1	1
Borrowings and various financial liabilities	(1,938)	(1,908)
Trade payables	–	–
Rebilling of rents	4	5
Provision of services	(365)	(365)
Financial income	–	–
Financial costs	(30)	(24)

27.2. Senior management and non-executive officers' remuneration

Senior management and non-executive officers comprise mainly the members of the Management Board, the Supervisory Board and the Executive Committee.

The Remuneration Committee determines the remuneration to be allocated to executive officers; it is responsible for assessing and determining the variable portion of the remuneration of the members of the Management Board, which is based on performance targets and the financial statements audited by the Statutory Auditors.

The following table provides details, in aggregate and for each category, of the components of senior management's remuneration:

€	2011/2012	2010/2011
Short-term benefits(1)	6,228,772	6,591,515
Termination benefits(4)	–	646,330
Post-employment benefits(2)	29,781	(74,713)
Share-based compensation(3)	–	–
Other long-term benefits	(291)	723
Directors' fees	138,400	138,800
TOTAL	**6,396,662**	**7,302,655**

(1) This category comprises fixed and variable remuneration (including employers' costs), profit sharing and incentive payments, supplementary contributions and benefits in kind paid during the year.
(2) Change in retirement provisions.
(3) Expense recognised in the income statement.
(4) At 31 March 2011, termination benefits concerned Etienne Haumont, who resigned from his position as a member of the Management Board on 1 September 2010 and from his duties as Chief Financial Officer on 24 September 2010.

27.3. Agreements entered into with senior management

– With Thierry Barel

Following the appointment of Thierry Barel as Chairman of the Management Board and Chief Executive Officer on 1 April 2011, the terms and conditions governing the termination of his duties have been defined. Thierry Barel will thus be entitled to compensation based on performance criteria, not exceeding eighteen months of total gross remuneration, in the event of his dismissal by the Supervisory Board.

– With Robert Joyeux

- Memorandum of understanding with managers
As part of the transactions relating to the reorganisation of its capital structure, Faiveley Transport concluded a memorandum of understanding and an amendment to this MOU on 16 October 2008 and 17 November 2008, respectively, with the managers and their spouses who were partners in Faiveley Management SAS.

Within the framework of the MOU of 16 October 2008, Robert Joyeux received 140,610 Faiveley Transport shares in exchange for the 164,430 Faiveley Management shares that he transferred to Faiveley transport. Robert Joyeux also committed to retain all his Faiveley Transport shares for a period of two years starting on 23 December 2008 and two thirds of his shares for a period of three years starting on 23 December 2008. This last clause was not applicable during the financial year. Furthermore, for a period of six years starting on 23 December 2008, any disposal of a block of more than 10,000 Faiveley Transport shares is subject to a Faiveley Transport pre-emption right.

- Amendment to the consulting and support contract of 22 April 2011
On 27 March 2012, an amendment to extend the consulting assignment provided by Robert Joyeux to the General Management of the Company was submitted for approval to the Supervisory Board. The Supervisory Board authorised the Chairman of the Management Board to sign this amendment.

– With Didier Alix

On 22 July 2011, an amendment to the credit agreement of 22 December 2008, concluded with a pool of nine banks, was presented to and authorised by the Supervisory Board.

One of the banks involved in the signing of this amendment is Société Générale. Didier Alix, member of the Company's Supervisory Board, acts as an advisor to the Chairman of this bank.

28. DIVIDENDS PAID AND PROPOSED

On 19 September 2011, a dividend of €1.20 per share was paid in respect of 13,948,730 shares, i.e. a total dividend of €16,738,476 for the 2010/2011 financial year.

The difference between the number of shares in respect of which dividends were paid and the total shares making up the share capital, i.e. 455,981 shares, corresponds to the treasury shares held by Faiveley Transport at the time of the distribution of the dividend.

	Number of shares	Treasury shares	Number of shares to which dividends have been paid	Dividends paid
Ordinary shares	6,728,594	455,981	6,272,613	7,527,136
Shares with double voting rights	7,676,117	–	7,676,117	9,211,340
	14,404,711	**455,981**	**13,948,730**	**16,738,476(1)**

(1) Including €7,578,458 to Financière Faiveley and €1,391,146 to François Faiveley Participation (F.F.P.).

In respect of the 2011/2012 financial year, the General Meeting will be asked to approve the payment of a dividend to shareholders of €12,422,029.20, being €0.85 per share. This distribution will be taken from the account "Retained Earnings". It will be payable with effect from 20 September 2012. It was not recognised as a liability at 31 March 2012.

F. Off-balance sheet commitments (€ thousands)

1. LEASES

• Operating leases

The operating leases entered into by the Faiveley Transport Group relate mainly to buildings and furniture.

The income and expenses recognised in respect of operating leases over the last two financial years break down as follows:

	2011/2012	2010/2011
Operating lease expenses	(10,575)	(9,182)
Sub-letting income	484	455
TOTAL	**(10,091)**	**(8,727)**

The future minimum payments to be made in respect of operating leases which are non-cancellable and had not expired as at 31 March 2012 are as follows:

	Under 1 year	1 to 5 years	Over 5 years
Total future rents	7,921	24,795	21,529

2. OTHER COMMITMENTS GIVEN

	2011/2012	2010/2011
Deposits, securities and bank guarantees given to customers	226,377	217,724
Guarantees and securities given by the parent company to customers	403,046	308,065
Borrowings guaranteed by pledges:		
• Mortgages of buildings	7,685	8,149
• Share pledge *	–	289,317
• Trade receivables pledged	–	1,114
• Equipment pledged	–	–

* Pledge of equity investments granted as guarantee for the bank loans; this was raised as part of the renegotiation of the syndicated facility in July 2011.

The off-balance sheet commitments above entitled "guarantees, securities and bank guarantees" is related to guarantees or securities provided to the banks essentially in favour of customers with whom commercial contracts have been signed. These guarantees are generally issued for defined periods and for defined amounts. These are principally guarantees for the repayment of deposits and guarantees for the satisfactory completion of contracts. Bank counter-guarantees may be issued for the benefit of banks supplying credit lines, and guarantees may also be issued for the benefit of certain subsidiaries of the Group.

The off-balance sheet commitments above entitled "guarantees and securities given by the parent company" are guarantees agreed by the parent company Faiveley Transport in favour of customers who have signed commercial contracts with subsidiaries of the Group. As for bank guarantees, these are issued for defined periods and for defined amounts and essentially relate to guarantees for the repayment of deposits and guarantees for the satisfactory completion of contracts.

3. COMMITMENTS RECEIVED

Other guarantees from suppliers: €2,297 thousand.

G. Consolidation scope and methods

1. LISTING OF CONSOLIDATED COMPANIES AND CONSOLIDATION METHODS

Faiveley Transport is the Group's holding company.

The following companies, in which Faiveley Transport directly or indirectly controls more than 50% of the share capital, are fully consolidated.

Entity	Country	% control	% interest
Parent company			
Faiveley Transport			
Full consolidation			
Faiveley Transport Leipzig GmbH & Co. KG [1]	Germany	100.00	100.00
Faiveley Transport Witten GmbH [1]	Germany	100.00	100.00
Faiveley Transport Verwaltungs GmbH [1]	Germany	100.00	100.00
Faiveley Transport Holding GmbH & Co. KG [1]	Germany	100.00	100.00
Nowe GmbH [1]	Germany	75.00	75.00
Faiveley Transport Australia Ltd.	Australia	100.00	100.00
Faiveley Transport Belgium NV	Belgium	100.00	100.00
Faiveley Transport Do Brasil Ltda.	Brazil	100.00	100.00
Faiveley Transport Canada Ltd.	Canada	100.00	100.00
Faiveley Transport Chile Ltda.	Chile	100.00	99.99
Faiveley Transport Systems Technology (Beijing) Co. Ltd.	China	100.00	100.00
Faiveley Transport Far East Ltd.	China	100.00	100.00
Shanghai Faiveley Railway Technology Co. Ltd.	China	51.00	51.00
Faiveley Transport Metro Technology Shanghai Ltd.	China	100.00	100.00
Faiveley Transport Railway Trading (Shanghai) Co. Ltd.	China	100.00	100.00
Faiveley Transport Asia Pacific Co. Ltd.	China	100.00	100.00
Faiveley Transport Korea Ltd.	Korea	100.00	100.00
Faiveley Transport Iberica S.A.	Spain	100.00	100.00
Transequipos S.A.	Spain	100.00	100.00
Faiveley Transport USA Inc.	USA	100.00	100.00
Ellcon National Inc.	USA	100.00	100.00
Ellcon Drive LLC.	USA	100.00	100.00
Amsted Rail - Faiveley LLC	USA	67.50	67.50
Graham-White Manufacturing Co.	USA	100.00	100.00
Omni Group Corporation	USA	100.00	100.00
Advanced Global Engineering LLC.	USA	100.00	55.00
ATR Investments LLC.	USA	100.00	60.00
Faiveley Transport Amiens	France	100.00	100.00
Faiveley Transport NSF	France	100.00	100.00
Faiveley Transport Tours	France	100.00	100.00

Entity	Country	% control	% interest
Faiveley Transport Gennevilliers	France	100.00	100.00
Faiveley Transport Birkenhead Ltd.	United Kingdom	100.00	100.00
Faiveley Transport Tamworth Ltd.	United Kingdom	100.00	100.00
Sab Wabco Ltd.	United Kingdom	100.00	100.00
Sab Wabco David & Metcalf Ltd.	United Kingdom	100.00	100.00
Sab Wabco David & Metcalf Products Ltd.	United Kingdom	100.00	100.00
Sab Wabco Investments Ltd.	United Kingdom	100.00	100.00
Sab Wabco Products Ltd.	United Kingdom	100.00	100.00
Sab Wabco Uk Ltd.	United Kingdom	100.00	100.00
Faiveley Transport Rail Technologies India Ltd.	India	100.00	100.00
F.M.R.P.	Iran	51.00	51.00
Faiveley Transport Italia Spa	Italy	100.00	98.70
Faiveley Transport Polska z.o.o.	Poland	100.00	100.00
Faiveley Transport Plzen s.r.o.	Czech Republic	100.00	100.00
Faiveley Transport Tremosnice s.r.o.	Czech Republic	100.00	100.00
Faiveley Transport Lekov a.s	Czech Republic	100.00	100.00
o.o.o Faiveley Transport	Russia	100.00	98.00
Faiveley Transport Metro Technology Singapore Ltd.	Singapore	100.00	100.00
Faiveley Transport Acquisition AB	Sweden	100.00	100.00
Faiveley Transport Malmö AB	Sweden	100.00	100.00
Faiveley Transport Nordic AB	Sweden	100.00	100.00
Faiveley Transport Schweiz AG	Switzerland	80.00	80.00
Faiveley Transport Metro Technology Thailand Ltd.	Thailand	100.00	100.00
Faiveley Transport Metro Technology Taiwan Ltd.	Taiwan	100.00	100.00
Proportional consolidation			
Qingdao Faiveley Sri Rail Brake Co. Ltd.	China	50.00	50.00
Datong Faiveley Couplers Systems Co. Ltd.	China	50.00	50.00
Shijiazhuang Jiaxiang Precision Machinery Co. Ltd.	China	50.00	50.00
Accounted for under the equity method			
Nil			

(1) Faiveley Transport Leipzig GmbH & Co. KG, Faiveley Transport Witten GmbH, Faiveley Transport Verwaltungs GmbH, Faiveley Transport Holding GmbH & Co. KG and Nowe GmbH, as subsidiaries of the Faiveley Transport Group responsible for the preparation of the consolidated financial statements, made use of the provisions of paragraph 264b of the German Commercial Code as regards the closing of accounts for the year ended 31 March 2012 and the related annual report, given that the financial statements and annual report will not be published.

• Legal developments arising during the financial year

- On 3 February 2012, acquisition of 100% of Graham-White Manufacturing Co.
- Newly-created companies:
  The Faiveley Transport office in China became a wholly-owned subsidiary following the creation of Faiveley Transport Systems Technology (Beijing) Co. Ltd.

2. LIST OF NON-CONSOLIDATED COMPANIES AT 31 MARCH 2012

		Net carrying value of investment				
(€ thousands)	% owned	Gross	Impairment	Net	Equity	Loss for the year
Suecobras (Brazil)	100	863	(666)	197	170	(16)
Sab Wabco Sharavan Ltd. (Iran)	49	11	(11)	–	–	–
Sofaport (France)	59.50	47	–	47	25	(3)
Faiveley Transport Service Morocco	100	–	–	–	(5)	(6)

H. Statutory Auditors' fees

Fees payable to the Statutory Auditors and members of their network as part of assignments relating to the financial statements at 31 March 2012 and 31 March 2011 were as follows

	ECA		PWC	Deloitte
	2011/2012	2010/2011	2011/2012	2010/2011
Audit:				
Statutory Auditors, certification, review of individual and consolidated financial statements:				
• Parent Company	152	173	200	206
• Subsidiaries	113	275	553	67
Other assignments directly related to the audit assignment	–	–	–	–
SUB-TOTAL AUDIT FEES	**265**	**448**	**753**	**273**
Other services:				
Legal, tax, corporate	–	–	–	–
Other	–	–	–	–
SUB-TOTAL OTHER SERVICES	**–**	**–**	**–**	
TOTAL	**265**	**448**	**753**	**273**

I. Financial communication

A German version of these consolidated financial statements has been filed with the local administration.

STATUTORY AUDITORS' **REPORT**

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On the consolidated financial statements

For the year ended 31 March 2012

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France

To the Shareholders ,

In compliance with the assignment entrusted to us by the Annual General Meeting, we hereby report to you, for the year ended 31 March 2012, on:

- the audit of the accompanying consolidated financial statements of Faiveley Transport SA;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance regarding whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence regarding the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 March 2012 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de Commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- At the year-end, the Group performs impairment testing on goodwill and intangible assets with indefinite lives and assesses whether there is an indication of impairment of non-current assets, in accordance with the terms and conditions described in Note E-1 to the financial statements. We have reviewed the methods for implementing this impairment testing, the cash flow forecasts and assumptions used by the management, as well as estimates resulting from the latter. We have verified that Note E-1 provides appropriate disclosure.
- The Group recognises income generated on contracts using the percentage of completion method in accordance with the terms and conditions described in Note C-6-1 to the financial statements. These results are determined based on costs and revenue associated with the contracts, as estimated by executive management. Based on the information provided to us, our work consisted in assessing the financial information and the assumptions on which these estimates have been based, in reviewing the calculations performed by the Company, in comparing estimates of revenue on completion from previous periods with actual results, and in examining the procedures used by executive management to approve these estimates.
- The Group records provisions to cover miscellaneous liabilities and charges as described in Note C-15-2. Our work consisted in examining the financial information and the assumptions on which theses estimates have been based, in reviewing the calculations performed by the Company, in comparing accounting estimates from previous periods with actual results and in examining the procedures used by executive management to approve these estimates. On this basis, we assessed the reasonableness of estimates made.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we have formed, which is expressed in the first part of this report.

III. SPECIFIC VERIFICATION

As required by law, we also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Dijon, 16 July 2012

The Statutory Auditors

PRICEWATERHOUSECOOPERS AUDIT	**EXPERTISE COMPTABLE ET AUDIT**
Philippe Vincent	Jérôme Burrier

FAIVELEY TRANSPORT PARENT COMPANY FINANCIAL STATEMENTS

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At 31 March 2012

I. BALANCE SHEET

ASSETS (€ thousands)	Notes	31 March 2012 Gross	31 March 2012 Amortisation, depreciation and provision charges	31 March 2012 Net	31 March 2011 Net
Non-current assets					
Intangible assets					
Other intangible assets	Note 1	392,415	5,126	387,289	385,490
In progress	Note 1	12,277	–	12,277	11,194
Property, plant and equipment					
Buildings	Note 1	–	–	–	17
Plant and machinery	Note 1	39	1	38	38
Other	Note 1	760	68	693	162
Financial assets					
Equity investments	Note 2	499,919	–	499,919	417,944
Loans and receivable from equity investments	Note 2	156,705	–	156,705	139,510
Other equity investments	Note 2	555	–	555	492
TOTAL (I)		**1,062,670**	**5,194**	**1,057,476**	**954,848**
Current assets					
Receivables					
Advances and prepayments received	Note 3	47	–	47	179
Trade receivables	Note 3	47,310	–	47,310	42,069
Other receivables	Note 3	6,246	–	6,246	3,411
Tax consolidation	Note 3	55	–	55	–
Cash and cash equivalents					
Marketable securities[(1)]	Note 4	32,285	632	31,653	34,304
Cash and cash equivalents[(2)]	Note 4	302,644	–	302,644	252,280
Prepaid expenses	Note 11	561	–	561	613
Translation difference		69	–	69	57
TOTAL (II)		**389,217**	**632**	**388,585**	**332,914**
TOTAL ASSETS (I + II)		**1,451,887**	**5,826**	**1,446,061**	**1,287,761**

(1) Including treasury shares of €20,842 thousand.
(2) Including treasury shares held within the framework of the liquidity contract of €534 thousand.

EQUITY AND LIABILITIES (€ thousands)	Notes	31 March 2012 before allocation	31 March 2011 before allocation
Equity			
Share capital	Note 5	14,614	14,405
Share premium	Note 5	104,954	94,045
Legal reserve	Note 5	1,440	1,440
Regulated reserves	Note 5	–	–
Other reserves	Note 5	–	–
Retained earnings	Note 5	67,796	86,292
Net profit/(loss)	Note 5	(10,999)	(1,757)
Regulated provisions	Note 6	–	–
TOTAL EQUITY (I)		**177,807**	**194,426**
Provisions for liabilities and charges	Note 6	1,884	960
TOTAL (II)		**1,884**	**960**
Liabilities			
Loans and borrowings			
Loans and borrowings from credit institutions	Note 7	707,551	595,278
Other loans and borrowings	Note 7	530,724	464,079
Other liabilities			
Trade payables	Note 8	14,987	13,448
Tax and social security liabilities	Note 8	7,321	9,172
Other liabilities	Note 8	2,842	7,209
Deferred income	Note 11	–	–
Translation difference		2,945	3,191
TOTAL (III)		**1,266,371**	**1,092,376**
TOTAL EQUITY AND LIABILITIES (I + II + III)		**1,446,061**	**1,287,761**

II. INCOME STATEMENT

(€ thousands)	Notes	31 March 2012	31 March 2011
SALES (EX.VAT)	**Note 12**	**52,681**	**48,860**
Cost of sales		(44,859)	(42,988)
Gross profit		**7,822**	**5,872**
Non-productive fixed costs		(10,113)	(8,023)
Other income		831	741
Other expenses		(138)	(190)
Restructuring costs		–	–
OPERATING PROFIT/(LOSS)		**(1,599)**	**(1,600)**
Amortisation and depreciation charges included in operating profit/(loss)		918	420
Operating profit/(loss) and amortisation and depreciation charges		**(681)**	**(1,180)**
Net finance income/(expense)	Note 15	(9,992)	(2,216)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES		**(11,591)**	**(3,816)**
EXCEPTIONAL INCOME/(EXPENSE)	**Note 16**	**(243)**	**1,317**
Employee profit-sharing		–	–
Income tax	Note 17	835	742
NET PROFIT/(LOSS)		**(10,999)**	**(1,757)**

III. CASH FLOW STATEMENT

(€ thousands)	Notes	31 March 2012	31 March 2011
Cash flow from operating activities:			
Net profit/(loss)		(10,999)	(1,757)
Adjustment for non-cash items:			
• Depreciation and amortisation charges		918	420
• Provision charges		2,235	548
• Provision reversals		(681)	(1,560)
• Gains/(losses) on asset disposals		25	–
SELF-FINANCING CAPACITY		**(8,502)**	**(2,349)**
Gross change in operating assets and liabilities:			
• Decrease/(increase) in receivables		(7,958)	(1,946)
• Increase/(decrease) in payables and accrued expenses		(4,918)	(4,862)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		**(21,378)**	**(9,157)**
Cash flow from investing activities:			
Purchase of PPE and intangible assets		(4,313)	(4,120)
Proceeds from disposal of PPE and intangible assets		–	26
Purchase of financial investments		(82,038)	(5,339)
Proceeds from sale of financial investments		11,170	12,087
Cash arising from acquisitions of subsidiaries		–	–
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**(75,181)**	**2,654**
Proceeds from share capital increases		–	–
Other movements in equity		–	–
Cash dividends paid		(16,738)	(16,899)
Proceeds from new borrowings		94,000	–
Repayment of borrowings		(47,948)	(59,699)
Movement in Group current accounts		56,985	92,751
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**86,299**	**16,153**
Net increase/(decrease) in cash and cash equivalents		**(10,260)**	**9,650**
Cash and cash equivalents at the start of period		58,476	48,826
CASH AND CASH EQUIVALENTS AT END OF PERIOD	Note 4	**48,215**	**58,476**

IV. NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

Notes to the parent company financial statements at 31 March 2012. Total assets on this date amounted to €1,446,061 thousand, and the income statement reflected a net loss of €10,999 thousand. The financial period was of 12 months and covered the period from 1 April 2011 to 31 March 2012.

A. Significant events

CHANGES IN GROUP GOVERNANCE

On 1 April 2011, following Robert Joyeux's resignation from his duties as Chief Executive Officer and Chairman of the Management Board of Faiveley Transport on 31 March 2011, Thierry Barel, previously Deputy Chief Executive Officer, was appointed Chief Executive Officer and Chairman of the Management Board. On the same day, Guillaume Bouhours was appointed as a member of the Management Board.

RELOCATION OF HEAD OFFICE

On 15 July 2011, Faiveley Transport relocated its head office to the following address:
Immeuble le Delage, Hall Parc, Bâtiment 6A, 3 rue du 19 mars 1962
92230 - Gennevilliers

RENEGOTIATION OF THE SYNDICATED CREDIT FACILITY

On 27 July 2011, Faiveley Transport signed an amendment to the syndicated credit facility set up in December 2008. This amendment was granted unanimously by the nine contributing banks, which thus confirmed their confidence in the Group's credit rating.

The total amount of funding remained unchanged, including an amortising term loan of €343 million (balance at the end of June 2011) and a revolving credit facility of €49 million.

The main amendments included:

- a 2.5-year extension of the loan maturity to 23 June 2016 instead of 23 December 2013;
- a more favourable amortisation profile, with mandatory annual instalments of €35 million, compared to €49 million previously;
- new covenants providing additional flexibility, with a leverage ratio (Net Debt/EBITDA) not exceeding 2.5x and a gearing ratio (Net Debt/Equity) not exceeding 150%;
- the option of using the revolving credit facility for merger and acquisition transactions;
- the release of pledging on shares of operating subsidiaries.

This refinancing transaction, carried out at favourable financial conditions, provides the Group with increased financial flexibility for the next five years and with the necessary resources to continue to expand, through both organic growth and acquisitions.

During the second half of the year, the Group put several financing facilities into place:

- a €20 million revolving facility, maturing on 18 November 2016, for the Group's general requirements or potential acquisitions;
- a €15 million revolving facility maturing on 23 June 2016, for the Group's general requirements or potential acquisitions, to be repaid in annual instalments of €1.5 million from 23 December 2012;
- a €30 million bridge loan to finance the acquisition of Graham-White Manufacturing Co., maturing on 14 January 2013 unless the acquisition is refinanced prior to that date. Since refinancing took place on 12 April 2012 (see below Note D1), this loan was repaid on 13 April 2012.

ACQUISITION OF GRAHAM-WHITE MANUFACTURING CO.

On 3 February 2012, Faiveley Transport, through its subsidiary Faiveley Transport USA, successfully completed the acquisition of 100% of Graham-White Manufacturing Co., a leading US designer and manufacturer of compressed air drying technology and brake components for locomotives and rail transit markets. Graham-White Manufacturing Co.'s annual sales reached more than USD 70 million in 2011, of which 90% was generated in the USA. This company employs 300 people and operates six facilities across the United States, with a central manufacturing site located in Salem, Virginia.

CHANGE IN THE SHARE CAPITAL OF THE COMPANY

As part of the acquisition of US company Graham-White Manufacturing Co., finalised on 3 February 2012, 209,441 new Faiveley Transport shares, representing 1.45% of the share capital of the Company were issued to former Graham-White Manufacturing Co. shareholders.

Therefore, Faiveley Transport now has a share capital of €14,614,152.

TAX AUDIT

The tax audit initiated in April 2011 was completed in December. Tax adjustments were only minor.

SHARE OPTION PLAN

The Combined General Meeting of 14 September 2011 delegated the Management Board powers for the allocation of ordinary shares of the Company free of charge, either new or already issued, within the limit of 1% of the share capital of the Company on the day of the said General Meeting.

At its meeting held on 4 January 2012, the Management Board decided to implement this delegation and to allocate free shares to a number of executives who already owned shares in the Company in a personal capacity.

At its meeting held on 5 March 2012, the Management Board set the final list of beneficiaries and the number of free shares to be granted. A total of 79,224 shares are thus to be granted to 151 beneficiaries. The allocation of the shares will be final at the end of a two-year vesting period, or four years for non-French residents, beginning on 5 March 2012.

B. Accounting rules and methods

1. APPLICATION OF ACCOUNTING RULES AND METHODS

The financial statements at 31 March 2012 have been prepared in accordance with accounting rules applicable in France:

- the law of 30 April 1983 and its application decree of 29 November 1983;
- the French General Accounting Plan 1999 as described by regulation 1999-03 of the Comité de la Réglementation Comptable and subsequent amendments.

The financial statements and the analyses for the year ending 31 March 2012 have been prepared and presented in accordance with accounting rules and in compliance with the principles of:

- prudence;
- independence of financial years;
- going concern;
- consistency of methods.

The historic cost method was used to determine accounting values.

2. CHANGE OF METHODS DURING THE YEAR

No changes of methods have been introduced by the Company during the year.

3. MEASUREMENT METHOD

The measurement methods described below have been used for the various items included in financial statements.

The financial statements have been prepared taking account of the following provisions applicable to financial years beginning on or after 1 January 2005:

- CRC regulation n°2002-10 on asset amortisation and impairment;
- CRC regulation n°2004-06 on the definition, recognition and measurement of assets.

3.1. Non-current assets

Non-current assets are recognised at their acquisition cost or at their transfer value in the case of those related to the restructuring operations of previous financial years. In order to recognise an unfavourable technical variance, the latter must be assessed at each year-end. In case there is an indication of impairment, a writedown charge must be recognised in the financial statements.

3.2. Amortisation and depreciation of non-current assets

Depreciation and amortisation of non-current assets acquired before 1 April 1993 are measured either on a declining-balance or on a straight-line basis, in accordance with tax regulations. Subsequent acquisitions are amortised or depreciated solely on a straight-line basis, in order to more closely match economic reality. Accelerated tax depreciation is recognised as far as permitted by tax regulations.

The principal periods of amortisation and depreciation are as follows:

• Intangible assets	
– Software	1 to 10 years
– Patents	9 to 15 years
• Property, plant and equipment	
– Buildings	15 to 20 years
– Misc. equipment and fittings	10 years
– Machinery and industrial equipment	3 to 8 years
– Vehicles	4 years
– Office equipment	3 to 10 years
– IT equipment	3 to 5 years
– Furniture	5 to 10 years

3.3. Equity investments

Equity investments are measured at their purchase and/or contribution value. At the end of the financial year, a provision for impairment is established when the realisable value is lower than its acquisition value. The realisable value is the value in use for the Group, measured on the basis of future discounted cash flows.

3.4. Receivables from equity investments

Receivables from equity investments correspond to loans provided to Group companies, as well as current accounts receivable from subsidiaries (excluding current tax receivables resulting from the Group’s tax consolidation). A provision is established whenever there is a risk of non-recovery.

3.5. Accounts receivable and payable

Accounts receivable and payable are recorded at nominal value. Provisions have been made for bad and doubtful debts according to the likelihood of non-recovery, as estimated at the end of the financial year. Old accounts for which non-recovery has become a certainty are written off as an expense and the corresponding provisions reversed through the income statement.

3.6. Marketable securities

Marketable securities are recognised at their fair value on the basis of their quoted price or at their liquidation value at the year-end. Marketable securities are subject to impairment when their liquidation value at the financial year-end is lower than their acquisition value.

Treasury shares are included in this caption in accordance with CRC Regulation 2008-5 on treasury shares.

The value of treasury shares unallocated to the various share purchase and subscription plans and free share allocation plans is written down based on the average decline in the share price noted over the last month of the financial year.

3.7. Share capital

All capital increases are registered at the nominal value of the shares issued. Should the issue price be greater than the nominal value, the difference is recorded in the share premium reserve.

3.8. Provisions for liabilities and charges

Provisions represent liabilities whose due date or amount has not been precisely determined. At 31 March 2012, the provisions amounted to €1,884 thousand and included:

- provisions for litigations of €293 thousand;

- unrealised exchange losses of €69 thousand (discounted based on foreign-denominated liabilities and trade receivables and valued at the closing rate);
- seniority awards of €7 thousand;
- provisions for stock option and free share allocation plans, of €1,516 thousand.

3.9. Share purchase option plan of 27 September 2005

When beneficiaries of the share purchase option plan exercise their rights, a capital loss will be recognised in Faiveley Transport's financial statements. This loss has been estimated at €599 thousand at 31 March 2009 and spread over 7 years (the duration of the plan). At 31 March 2012, this provision was revised to €50 thousand based on options exercised and outstanding. During the 2011/2012 financial year, 40,506 options were exercised by their beneficiaries. On this occasion, an exceptional expense of €76 thousand and a €43 thousand provision reversal were recognised.

3.10. Share subscription option plan of 22 September 2009

When shares are subscribed to, a capital loss will be recognised in Faiveley Transport's financial statements in the case the purchase price of the shares allocated to this plan exceeds the subscription price. This loss has been estimated at €472 thousand at 31 March 2012, weighted by an exercise probability of 90% and spread pro rata according to the number of days which have passed, out of the 8 years of duration of the plan. At 31 March 2012, a provision of €134 thousand was recognised under personnel costs.

3.11. Free performance-based share allocation plan authorised by the General Meeting of 13 September 2010

When shares are allocated, a capital loss will be recognised in Faiveley Transport's financial statements for the purchase price of the shares allocated to this plan. This loss has been estimated at €3,753 thousand at 31 March 2012, weighted by a vesting probability of 51% and spread pro rata according to the number of days which have passed out of the 2-year vesting period of the plan. At 31 March 2012, a provision of €1,257 thousand was recognised under personnel costs.

3.12. Free share allocation plan authorised by the General Meeting of 14 September 2011

When shares are allocated, a capital loss will be recognised in Faiveley Transport's financial statements for the purchase price of the shares allocated to this plan. This loss has been estimated at €4,772 thousand at 31 March 2012, weighted by a vesting probability of 55% and spread pro rata according to the number of days which have passed out of the 2- or 4-year vesting periods of the plan. At 31 March 2012, a provision of €75 thousand was recognised under personnel costs.

3.13. Loans and borrowings

Loans and borrowings are valued at their nominal value and comprise:
- a loan of €326.6 million provided by the bank pool to finance the reorganisation of Faiveley Transport's shareholding structure;
- credit facilities of €94 million;
- accrued interest on financial debt of €0.2 million;
- bank overdrafts and cash pooling (managed by the Group treasury department) of €286.7 million;
- a loan of €20.3 million from its subsidiary Faiveley Transport Malmö;
- current accounts with Group companies of €510 million;
- the balance on the special reserve for employee profit-sharing of €0.06 million.

3.14. Financial instruments

– Exchange risk

Due to the nature of its operations, Faiveley Transport is exposed to exchange risks arising from its holding company activities (including exchange hedging for the benefit of subsidiaries), from its loan agreements and on inter-company balances.

In 2011/2012, the major currencies concerned are the US Dollar, the Pound Sterling, the Czech Koruna, the Swedish Krona and the Chinese Yuan. The risks are hedged through forward purchases or sales of currencies and tunnel options.

These external hedge transactions aim to protect the Group against unfavourable fluctuations in foreign currencies that could affect the profit on a contract and are subject to an internal counterpart agreement with subsidiaries.

Information on financial derivatives currently in place to hedge against exchange risk on forward purchases or sales are detailed in the notes to the consolidated financial statements (see Note E.16 – Financial instruments and financial risk management).

– Interest rate risk

The main interest rate risk to which the Group is exposed arises as a result of the syndicated debt, excluding the revolving facility. Faiveley Transport concluded a credit agreement with a pool of nine banks for fixed-term borrowings, the balance of which was €299.9 million and USD 35.7 million at 31 March 2012. This credit agreement is based upon variable Euribor and US Dollar Libor interest rates.

To manage its risk, the Treasury Department has implemented a hedging strategy using interest rate swaps and options.

The exposure of interest rates on Euro-denominated syndicated debt is hedged for between 66% and 85% of the total debt bearing a Euro interest rate, depending on fluctuations for the 2012/2013 period. The exposure of interest rates on US Dollar-denominated debt is 94% hedged.

The estimated cost of syndicated debt in 2012/2013, including hedges, is 2.13% for Euro-denominated debt and 3.19% for the US Dollar-denominated debt.

– Foreign exchange transactions

Income and expenses in foreign currencies are recorded at the exchange rate on the transaction date.

Foreign currency-denominated borrowings, receivables and cash are recorded in the balance sheet at the exchange rate on the balance sheet date. Any exchange difference arising from the revaluation of these items at these exchange rates is taken to "translation differences".

The unrealised exchange loss resulting from the determination of an overall foreign exchange position on assets and liabilities held on the balance sheet date is subject to a provision for foreign exchange risk.

3.15. Income statement

Faiveley Transport continues its activities of providing services to the Group as the holding company. Sales of €52.7 million achieved in 2011/2012 represented an increase of €3.8 million compared to €48.9 million reported in the previous year.
A significant portion of Faiveley Transport's costs corresponding to services provided to subsidiaries is rebilled. The operating loss was €1.6 million, unchanged compared to the previous financial year. Fixed costs that are not rebilled to subsidiaries increased; this increase was however offset by growth in royalties for the use of the Faiveley Transport brand.

The net finance expense was €9.9 million, compared to a net expense of €2.2 million in the previous year. In 2011/2012, dividends of €1.3 million were collected, compared to €0.4 million in 2010/2011.

Excluding dividends, the net finance expense declined by €8.7 million during the 2011/2012 financial year. This was due, on the one hand, to an increase of €2.2 million in interest expense, which relates to bank loans, higher drawdowns on credit facilities, interest on current accounts and bank overdrafts, partly offset by interest on loans to subsidiaries. Faiveley Transport also recorded virtually nil net foreign exchange gains during the year, compared to an income of €4.4 million in the previous year, due to the unwinding of SEK and USD hedges. In addition, a €0.6 million provision for writedown of treasury shares was recognised during the year, whilst the reversal of a provision for foreign exchange risks was recognised in the previous year for €1.5 million.

The €0.8 million income tax refund recognised for the year ended 31 March 2012 reflects the tax consolidation gain of €3.9 million achieved during the period, reduced by the tax charge generated by the German subsidiaries, Faiveley Transport Holding GmbH & Co KG and Faiveley Transport Leipzig GmbH & Co KG for €3 million (corporate tax), increased by other tax credit of €0.1 million.

C. Notes to balance sheet and income statement

1. NON-CURRENT ASSETS

• Changes in the period

	Gross at 1 April 2011	Acquisitions[2]	Disposals	Gross at 31 March 2012
Intangible assets[1]	389,917	2,498	–	392,415
Intangible assets in progress	11,194	1,083	–	12,277
General fittings, fixtures and miscellaneous	603	567	(564)	606
Equipment, office and computer equipment, furniture	143	164	(114)	193
Advances and prepayments on non-current assets	–	–	–	–
TOTAL	**401,857**	**4,312**	**(678)**	**405,491**

(1) This caption includes the €384.8 million unfavourable technical variance recognised as part of the transfer of all assets and liabilities of Faiveley Transport and Faiveley Management during the financial year ended 31 March 2009. This technical variance was subject to an impairment test at 31 March 2012, which did not highlight the need for a writedown charge to be recognised in the financial statements.
The remainder of this heading primarily includes IT software development costs.
(2) Including the reclassification of €1.4 million in intangible assets in progress following their commissioning.

• Amortisation, depreciation and writedowns

	At 1 April 2011	Charges	Decreases	At 31 March 2012
Intangible assets	4,427	699	–	5,126
General fittings, fixtures and miscellaneous	404	197	(561)	40
Equipment, office and computer equipment, furniture	124	22	(117)	29
TOTAL	**4,955**	**918**	**(678)**	**5,195**

2. FINANCIAL INVESTMENTS

• Changes in the period

	Gross at 1 April 2011	Acquisitions/Increases	Disposals/Decreases	Gross at 31 March 2012
Equity investments	417,944	81,975 (1)	–	499,919
Loans receivable from equity investments	139,510	31,393	(14,198)	156,705
Other equity investments	492	201	(138)	555
TOTAL	**557,946**	**113,569**	**(14,336)**	**657,179**

(1) This increase was due to the creation of the Chinese subsidiary Faiveley Transport Systems Technology (Beijing) for €2 million, the initial €56 million investment in the share capital of Faiveley Transport Belgium and the increase of the equity investment in Faiveley Transport USA Inc. for €24 million.

• Maturity of receivables

	Less than 1 year	Between 1 and 5 years	More than 5 years	Net at 31 March 2012
Loans and receivables from equity investments	53,502	53,935	49,268	156,705
Other equity investments	192	119	244	555
TOTAL	**53,694**	**54,054**	**49,512**	**157,260**

3. RECEIVABLES

	Less than 1 year	More than 1 year	Net at 31 March 2012	Net at 31 March 2011
Trade and other accounts receivable	47,310	–	47,310	42,069
Other receivables - advances and prepayments	6,293	–	6,293	3,590
Tax consolidation	55	–	55	–
TOTAL	**53,658**	**–**	**53,658**	**45,659**

4. CASH AND MARKETABLE SECURITIES (GROSS)

	31 March 2012	31 March 2011
Marketable securities (1)	32,285	34,306
Cash (2)	302,644	252,280
Bank overdrafts	(286,714)	(228,110)
TOTAL	**48,215**	**58,476**

(1) Of which treasury shares of €20,842 thousand (gross), including a writedown of €630 thousand calculated in accordance with the method specified in § 3.6.
(2) Including treasury shares held within the framework of the liquidity contract for €534 thousand.

5. EQUITY

	Share capital	Share premium	Reserves	Retained earnings	Profit for the year	Total
BALANCE AT 31 MARCH 2010	**14,405**	**94,045**	**1,440**	**61,883**	**41,308**	**213,081**
Allocation of 2009/2010 profit	–	–	–	41,308	(41,308)	–
Dividends paid	–	–	–	(16,899)	–	(16,899)
Profit/(loss) for the year	–	–	–	–	(1,757)	(1,757)
Other movements	–	–	–	–	–	–
BALANCE AT 31 MARCH 2011	**14,405**	**94,045**	**1,440**	**86,292**	**(1,757)**	**194,425**
Allocation of 2010/2011 profit	–	–	–	(1,757)	1,757	–
Dividends paid	–	–	–	(16,737)	–	(16,737)
Profit/(loss) for the year	–	–	–	–	(10,999)	(10,999)
Other movements (1)	209	10,909	–	–	–	11,118
BALANCE AT 31 MARCH 2012	**14,614**	**104,954**	**1,440**	**67,798**	**(10,999)**	**177,807**

(1) Capital increase relating to the payment in shares of part of the acquisition of Graham-White Manufacturing Co.'s securities.

5.1. Share capital

At 31 March 2012, the share capital of the company was €14,614,152, divided into 14,614,152 shares of €1 each, fully paid up. Nominative shares recorded in the name of the same holder for at least two years (7,952,782 shares at 31 March 2012) benefit from a double voting right.

– Analysis of share capital

Shares	31 March 2011	Created	Granted double voting right	31 March 2012	Nominal value
Ordinary	6,486,734	209,441	(34,805)	6,661,370	1
Amortised	–	–	–	–	–
With priority dividends	–	–	–	–	–
With double voting rights	7,917,977	–	34,805	7,952,782	1
TOTAL	**14,404,711**	**209,441**	**–**	**14,614,152**	**1**

– Treasury shares

The Company directly and indirectly holds 2.93% of its share capital.

– Employee participation in the share capital of the Company

FCPE Faiveley Actions holds 15,360 shares (0.11%) in the Company.

– Share purchase option plan of 27 September 2005

On request from Faiveley Transport, Faiveley S.A. (now called Faiveley Transport) implemented a share option plan for the benefit of key Faiveley Transport Group management (excluding the managers who invested in Faiveley Management).

This share option plan, for a maximum of 325,000 Faiveley S.A. shares, was approved by the General Meeting of 27 September 2005. Granted for a period of thirty-eight months, this authorisation lapsed on 27 September 2008.

In order to meet its obligation to transfer these shares to the plan beneficiaries, Faiveley Transport bought back some of its own shares in the market at the end of 2005. At 31 March 2012, the Company held 427,528 of its own shares (including 10,181 shares via its liquidity contract). The options to purchase shares, if exercised, will give rise to the purchase of existing ordinary shares in Faiveley Transport.

- Principle features of the current share purchase option plan

Date of allocation	Number of shares allocated	Subscription price*	Options cancelled	Options exercised	Number of options outstanding	Of which to Executive Committee members
24 November 2005	221,760	26.79	47,040	160,126	14,594	13,440
29 December 2005	6,720	29.75	–	6,720	–	–
22 June 2006	31,360	30.48	4,480	21,719	5,161	–
25 October 2006	6,720	33.77	–	6,720	–	–
15 November 2006	4,480	34.13	–	4,480	–	–
1 December 2006	11,200	34.01	–	7,330	3,870	–
2 April 2007	26,880	42.80	–	11,220	15,660	–
19 February 2008	26,880	32.31	–	20,560	6,320	6,720
29 March 2008	13,440	34.08	4,480	130	8,830	–
16 July 2008	22,600	40.78	–	–	22,600	22,600
TOTAL	**372,040**	**–**	**56,000**	**239,005**	**77,035**	**42,760**

* The exercise price is equal to the average price of the twenty trading days prior to the date of the Management Board deciding on the allocation, less a discount of 5%.

Following the departure of certain option holders since the Management Board implemented the plan and options exercised until that date, options granted at 31 March 2012 related to 77,035 shares and 15 beneficiaries.

The options can be exercised from the second anniversary of their grant date by the Chairman of the Management Board, subject to the presence of the beneficiaries within the Faiveley Transport Group on the day of exercise and their acceptance of the option regulations. To date, 239,005 options have been exercised.

– Share subscription option plan of 22 September 2009

The Combined General Meeting of 22 September 2009 delegated the Management Board powers in relation to:
- granting share subscription and/or purchase options;
- issuing shares or marketable securities giving right to the allocation of new or already issued shares of the Company, with, in the case of the allocation of new shares, the cancellation of the pre-emption right.

At its meeting of 23 November 2009, the Management Board decided to allocate, from that date and up to 23 November 2017, options giving right to subscribe for new shares of the Company, to be issued as part of a capital increase, for a total amount not exceeding €144,000, corresponding to 144,000 new shares of a par value of €1 each. The new shares will be issued at a price of €54.91 each.

- Main features of the current share subscription option plan

Date of allocation	Number of shares allocated	Subscription price	Options cancelled	Options exercised	Number of options outstanding	Of which to Executive Committee members
23 November 2009	144,000	54.91	14,000	–	130,000	95,000
TOTAL	**144,000**	**–**	**14,000**	**–**	**130,000**	**95,000**

– Free performance-based share allocation plan authorised by the General Meeting of 13 September 2010

Faiveley Transport's Combined General Meeting of 13 September 2010 delegated the Management Board powers for the allocation of free performance-based shares, either existing or to be issued, within the limit of 1% of the share capital at 13 September 2010.

At its meetings of 3 December 2010 and 24 February 2011, the Management Board allocated a total of 69,700 existing shares to 43 beneficiaries.

- Main features of the current free share allocation plan

Allocation date	Number of free shares granted	Free shares cancelled	Of which to Executive Committee members	Free shares outstanding
3 December 2010	64,500	5,000	32,500	59,500
24 February 2011	5,200	2,400	–	2,800

– Free share allocation plan authorised by the General Meeting of 14 September 2011

The Combined General Meeting of 14 September 2011 delegated to the Management Board its powers in relation to:
- setting the conditions and where appropriate, setting the allocation criteria for ordinary shares;
- within the legal conditions and limits, setting the dates on which the allocations will proceed;
- determining the identity of beneficiaries, the number of ordinary shares allocated to each of them and the means of allocation of ordinary shares.

This authorisation is valid for thirty-eight months, from this date, and may not exceed 1% of the share capital on 14 September 2011.

At its meeting of 5 March 2012, the Management Board used this authorisation and granted a total of 79,224 free shares to 151 beneficiaries.

- Main features of the current free share allocation plan

Allocation date	Number of free shares granted	Free shares cancelled	Of which to Executive Committee members	Free shares outstanding
5 March 2012	79,224	–	15,200	79,224

5.2. Share premium

The share premium represents the difference between the nominal value of securities and the amount, net of costs, received in cash or kind at the time of the issue. The change for the financial year relates to the capital increase (see section 5 above).

6. REGULATED PROVISIONS AND PROVISIONS FOR LIABILITIES AND CHARGES

	1 April 2011	Charges	Used reversals	Unused reversals	31 March 2012
Accelerated depreciation	–	–	–	–	–
REGULATED PROVISIONS	**–**	**–**	**–**	**–**	**–**
Provisions for liabilities	87	69	(57)	–	99
Provisions for taxes	–	–	–	–	–
Provisions for litigation	770	72	(430)	(150)	262
Provisions for option plans (1)	94	1,464	(42)	–	1,516
Provisions for employee compensation	9	–	(2)	–	7
PROVISIONS FOR LIABILITIES AND CHARGES	**960**	**1,605**	**(531)**	**(150)**	**1,884**

(1) The €1,516 thousand provision for option plans includes €50 thousand relating to the option plan of 27 September 2005, €134 thousand for the subscription option plan of 22 September 2009, €1,257 thousand for the free share allocation plan of 13 September 2010 and €75 thousand for the free share allocation plan of 14 September 2011.

7. LOANS AND BORROWINGS

	Less than 1 year	More than 1 year	31 March 2012	31 March 2011
Loans and borrowings from credit institutions	353,517	354,034	707,551	595,308
Employee profit-sharing	–	65	65	65
Other financial liabilities (1)	10,156	10,156	20,312	27,929
Current trade payables	510,347	–	510,347	436,055
TOTAL	**874,020**	**364,255**	**1,238,275**	**1,059,357**

(1) Other borrowings, at 31 March 2012, correspond to the loan of €20.3 million contracted with its subsidiary Faiveley Transport Malmö.

During the financial year, loans and borrowings from credit institutions increased by €112.2 million. This substantial rise primarily related to drawdowns of €94 million on credit facilities and a €58.6 million increase in bank overdrafts, offset by the repayment of €40.4 million on loans entered into on 23 December 2008.

For all its sources of financing, the Faiveley Transport Group must comply with the following four financial conditions:

- leverage ratio (Consolidated Net Debt/Consolidated EBITDA): must not exceed 2.5. At 31 March 2012, the ratio was 1.77;
- gearing ratio (Consolidated Net Debt /Consolidated Equity): must not exceed 1.50. At 31 March 2012, the ratio was 0.41;
- total bank guarantees must not exceed 22% of the order book. At 31 March 2012, this was 13.4%;
- "Consolidated EBITDA/Cost of Consolidated Net Financial Debt" must not be less than 3.5. At 31 March 2012, the ratio was 11.4.

Other financial liabilities decreased by €7.6 million. This decline was due to the repayment of the Euro-denominated loan granted by the Faiveley Transport Malmö subsidiary.

Current trade payable balances increased by €74 million at 31 March 2012.

8. OTHER LIABILITIES

	Less than 1 year	More than 1 year	31 March 2012	31 March 2011
Trade payables	14,987	–	14,987	13,448
Tax and social security liabilities (1)	7,321	–	7,321	9,172
Tax consolidation	2,124	–	2,124	4,811
Other	718	–	718	2,398
TOTAL	**25,150**	**–**	**25,150**	**29,829**

(1) The tax liability relating to the company Faiveley Transport Holding GmbH & Co KG and Faiveley Transport Leipzig GmbH & Co KG was recorded under tax and social security liabilities for €296 thousand. At 31 March 2011, this liability was €1,415 thousand.

9. DEFERRED EXPENSES

Nil.

10. ACCRUED EXPENSES AND ACCRUED INCOME

10.1. Accrued expenses

Accrued expenses included in the following balance sheet captions	2011/2012	2010/2011
Loans and borrowings	193	298
Trade payables	2,622	1,149
Tax and social security liabilities	4,620	5,027
Liabilities for non-current assets	–	–
Other	316	–
TOTAL	**7,751**	**6,474**

10.2. Accrued income

Accrued income included in the following balance sheet captions	2011/2012	2010/2011
Receivables from associates	2,113	1,292
Trade receivables	28,216	23,440
Other receivables	–	–
Supplier receivables	150	18
Tax and social security receivables	12	21
Cash and cash equivalents	–	–
TOTAL	**30,491**	**24,771**

11. PREPAID EXPENSES AND DEFERRED INCOME

	2011/2012	2010/2011
Operating expenses	561	613
Financial expenses	–	–
Exceptional expenses	–	–
PREPAID EXPENSES	**561**	**613**
Operating income	–	–
Financial income	–	–
Exceptional income	–	–
DEFERRED INCOME	**–**	**–**

12. ANALYSIS OF SALES BY SEGMENT AND GEOGRAPHIC AREA

Segment	2011/2012	2010/2011
Provision of services	52,677	48,854
Rental/hire	385	6
TOTAL	**52,681**	**48,860**

Geographic area	2011/2012	2010/2011
France	16,626	15,476
EU	31,921	24,274
Non EU	4,134	9,110
TOTAL	**52,681**	**48,860**

13. RESEARCH AND DEVELOPMENT

None in Faiveley Transport's parent company financial statements.

14. PERSONNEL COSTS

	2011/2012	2010/2011
Salaries (1)	11,695	11,169
Social security charges	3,983	4,108
TOTAL	**15,678**	**15,277**

(1) Including, at 31 March 2012, a provision of €1,465 thousand relating to the future cost of share subscription option and free share plans.

15. FINANCIAL INCOME/(EXPENSE)

	2011/2012	2010/2011
Cash dividends received	1,339	376
Income from marketable securities	26	205
Interest on current accounts, loans, borrowings and overdrafts	(11,259)	(8,970)
Realised foreign exchange gains and losses	67	4,453
Charges and reversals on financial investments	(599)	1,503
Other financial income and charges	434	217
TOTAL	**(9,992)**	**(2,216)**

16. EXCEPTIONAL INCOME AND EXPENSES

	2011/2012	2010/2011
Income/(expense) on disposals of financial investments	–	(141)
Other (1)	(243)	1,458
TOTAL	**(243)**	**1,317**

(1) The exceptional income in 2010/2011 was primarily due to the technical dispute with Acela Amtrak, arbitrated in November 2010.

17. INCOME TAX

17.1. Analysis of income tax between the current tax charge, exceptional income and accounting profit

	Before tax	Tax	After tax
Profit/(loss) from ordinary activities	(11,591)	–	(11,591)
Exceptional income	(243)	–	(243)
Effect of tax consolidation	–	835	835
ACCOUNTING PROFIT/(LOSS)	**(11,834)**	**835**	**(10,999)**

17.2. Tax consolidation

Faiveley Transport heads a tax consolidation that comprises Faiveley Transport Tours, Faiveley Transport Amiens, Faiveley Transport Gennevilliers and Faiveley Transport NSF.

Tax savings achieved as part of this tax consolidation are recognised and retained by the parent company. For the year ended 31 March 2012, the tax consolidation generated a tax saving of €3.9 million, offset by the €3 million tax charge of its German subsidiaries (corporate tax).
Without the tax consolidation, the taxable profit of Faiveley Transport alone, which was a loss of €12.8 million, would not have attracted any income tax.

At 31 March 2012, tax losses carried forward were €1.2 million. Since these losses originated prior to the merger between Faiveley S.A. and Faiveley Transport, they may be offset against any of Faiveley Transport's future profits.

17.3. Exceptional tax assessments

Nil.

17.4. Deferred and unrealised tax position

Description	Amount
Taxes payable on:	
Regulated provisions:	–
Provisions for price increases	–
TOTAL INCREASE	**–**
Prepaid tax on:	
Non-deductible temporary timing differences on expenses (deductible in subsequent year):	
• Provision for Directors' fees	150
• Paid holidays	948
• Liability translation adjustment	2,945
• Organic contribution	81
TOTAL DECREASE	**4,124**
NET DEFERRED TAX POSITION	**4,124**

18. TRANSLATION DIFFERENCES

Positive and negative translation differences arise on the translation of trade receivables and payables and on borrowings, loans and foreign currency denominated bank accounts at balance sheet date exchange rates.

Type of translation difference	Unrealised losses (asset)	Provision for exchange of loss	Unrealised gains (liabilities)
Subsidiary loans	–	–	2,818
Subsidiary borrowings	–	–	–
Bank borrowings	–	–	–
Foreign currency-denominated bank accounts	7	7	87
Foreign currency-denominated trade receivables	11	11	39
Foreign currency-denominated trade payables	51	51	1
TOTAL	**69**	**69**	**2,945**

D. Other information

1. POST-BALANCE SHEET EVENTS

On 12 April 2012, Faiveley Transport carried out a USD 75 million bond issue through a private placement made up of two tranches:
- USD 30 million with a 10-year final maturity, redeemable between 2017 and 2022;
- USD 45 million of bullet loan with a 10-year maturity.

This private placement, which bears an average fixed rate of 4.91%, has been subscribed by two US-based institutional investors. It allowed Faiveley Transport to secure long-term USD funding requirements, particularly those related to the acquisition of Graham-White Manufacturing Co. finalised last February.

2. INFORMATION ON NON-TAX DEDUCTIBLE EXPENSES

Non-tax deductible expenses were €26,042 at 31 March 2012.

3. AVERAGE WORKFORCE

The average workforce includes employees allocated to international offices. The decline was due to the transfer of employees of the Beijing office to the new local subsidiary created in April 2011.

	2011/2012	2010/2011
Managers	65	68
Supervisors	2	2
Employees	11	19
TOTAL	**78**	**89**

4. DIRECTORS' REMUNERATION

Supervisory Board members received a total of €138,400 thousand in attendance fees.

5. IDENTITY OF PARENT COMPANY

Faiveley Transport fully consolidates the subsidiaries in which it directly or indirectly holds over 50% of the share capital. Companies, in which Faiveley Transport exercises joint control, whether directly or indirectly, are proportionally consolidated.

6. TRANSACTIONS WITH RELATED COMPANIES AND PARTIES

– With related companies

Share of financial investments, receivables, payables, income and expenses concerning related parties:

Related companies	2011/2012	2010/2011
Equity investments	499,919	417,944
Receivables from associates	156,705	138,218
Trade receivables	47,114	41,942
Other receivables	75	1,310
Loans and other borrowings	530,659	463,983
Trade and other payables	12,057	10,576
Other liabilities	2,124	4,879
Provision of services	52,965	49,273
Operating expenses	23,535	20,069
Financial expenses	4,938	2,718
Financial income	5,967	4,594

– With related parties

No significant transaction and/or potential transactions were concluded at arm's length.

7. OFF-BALANCE SHEET COMMITMENTS

7.1. Commitments given

	2011/2012	2010/2011
Deposits, securities and guarantees given to financial institutions	38,622	42,539
Retirement benefits (1)	500	452
Parent company guarantees	403,046	308,065
Debts guaranteed by pledges:		
Mortgages of buildings	–	–
Share pledge (2)	–	289,317
Equipment pledged	–	–

(1) Retirement assumptions:
The discount rates are determined by reference to the yields on AAA bonds for the equivalent periods to the commitments at the date of valuation.
The assumptions adopted to calculate the retirement commitments are disclosed in the table below:

	2011/2012	2010/2011	2009/2010
Discount rate	3.85%	4.80%	4.60%
Inflation rate	2%	2.00%	2.00%
Average rate of salary increase	3%	3.00%	3.00%
Yield expected on investments	N/A	N/A	N/A

(2) Shares pledged: this was raised as part of the renegotiation of the syndicated facility in July 2011.

7.2. Finance and long term lease commitments

Description	Other non-current assets	Total
Opening value	1,079	1,079
Depreciation	–	–
NET VALUE	**1,079**	**1,079**
Lease payments for the financial year	11	11
TOTAL	**11**	**11**
Lease payments due:		
• 1 year or less	–	–
• 1 to 5 years	–	–
• more than 5 years	–	–
TOTAL	**–**	**–**

Types of leases	Facilities	IT hardware	Motor rental	Total
Lease payments for the financial year	–	432	123	555
TOTAL	**–**	**432**	**123**	**555**
Lease payments due:				
• 1 year or less	48	462	99	609
• 1 to 5 years	2,351	470	72	2,893
• more than 5 years	2,642	–		2,642
TOTAL	**5,041**	**932**	**171**	**6,144**

7.3. Hedging commitments

– Interest rate risk

The main interest rate risk to which the Group is exposed originates from the syndicated debt, excluding the revolving facility.

To manage its interest rate risk, the Treasury Department has implemented a hedging strategy using interest rate swaps and options.

The exposure to interest rates on Euro-denominated borrowings is hedged for between 66% and 85% of the total debt drawn down based on Euro interest rate fluctuations for the 2012/2013 period. The US Dollar-denominated debt is 94%.

The estimated cost of bank debt for 2012/2013, including hedges is 2.13% for the Euro-denominated debt, and 3.19% for the US Dollar-denominated debt.

- Instruments recognised under equity

	Euro borrowings		USD borrowings			
	Nominal value (€ thousands)	Fair value (€ thousands)	Nominal value (USD thousands)	Fair value (USD thousands)	Nominal value (€ thousands)	Fair value (€ thousands)
Swaps	150,000	(2,462)	35,791	(589)	26,798	(441)
Tunnels	42,500	(561)	–	–	–	–
Caps	70,000	(204)	–	–	–	–
TOTAL	**262,500**	**(3,227)**	**35,791**	**(589)**	**26,798**	**(441)**

– Exchange risks

The Group operates in foreign countries and is therefore exposed to exchange risk as a result of various foreign currency exposures.

The principal currencies concerned are the Chinese Yuan, the US Dollar, the Pound Sterling, the Czech Koruna and the Swedish Krona. The management of the exchange risk of commercial contracts is centralised by the Group Treasury Department and comprises two parts: the certain and the uncertain risk.

- Exchange risk management relating to tenders in foreign currencies (uncertain risk):
  The Faiveley Transport Group is required to submit tenders denominated in foreign currencies. The Group's hedging policy is not to use hedge instruments during the offer phase, unless when specifically decided by Management. The aim is to manage the exchange risk through normal commercially available means. If necessary, the Group Treasury Department uses mainly exchange options.
- Exchange risk management relating to commercial contracts (certain risk):
  Commercial contracts in foreign currencies (most often successful tenders) are hedged by the Group Treasury Department from contractual commitment. Instruments used mainly include forward purchases and sales and exchange swaps. Group Treasury may also use options.

The Group's policy is to systematically hedge the full value of future transactions expected in every major currency. The minimum trigger threshold for a foreign exchange hedge is €250 thousand.

Various cash flows are hedged against for a minimum of 80% of the annual budget.
In addition to commercial contracts, all financial positions and management fees are systematically hedged against.

- Forward sales used to hedge business transactions at 31 March 2012

	Nominal value		Fair value
	(€ thousands)	(thousands of foreign currency)	(€ thousands)
Australian Dollar	7,660	9,917	(1)
Swiss Franc	1,509	1,850	(28)
Chinese Yuan	20,082	172,100	(329)
Czech Koruna	7,013	174,000	(19)
Pound Sterling	22,208	19,000	(521)
Hong Kong Dollar	16,243	172,000	(341)
Indian Rupee	422	27,300	28
Polish Zloty	767	3,400	(36)
Russian Rouble	506	20,000	2
Swedish Krona	11,110	99,888	(70)
Singapore Dollar	23,598	28,400	–
US Dollar	126,199	168,721	(37)
TOTAL	**237,317**	**–**	**(1,352)**

- Forward purchases used to hedge financial and business transactions at 31 March 2012

	Nominal value		Fair value
	(€ thousands)	(thousands of foreign currency)	(€ thousands)
Australian Dollar	7,082	9,190	(48)
Swiss Franc	1,313	1,610	24
Chinese Yuan	15,308	127,800	(134)
Czech Koruna	35,703	897,929	569
Pound Sterling	28,304	24,317	825
Hong Kong Dollar	21,139	221,883	253
Indian Rupee	3,221	232,300	(1)
Polish Zloty	1,508	6,750	103
Swedish Krona	45,728	411,490	374
US Dollar	53,378	70,857	390
TOTAL	**212,683**	**–**	**2,356**

– Derivative instruments

The fair value of derivative instruments used to hedge against foreign exchange, interest rate and raw material risks was recognised in the balance sheet as follows:

At 31 March 2012	Financial instruments - Assets	Financial instruments - Liabilities	Unrealised capital gains/ (losses) taken to equity
Interest rate hedges(1)	–	3,623	(3,557)
Raw material hedges(1)	–	4	(4)
Foreign exchange hedges	5,003	4,018	116
• *fair value hedges*	*3,270*	*3,006*	–
• *cash flow hedges*	*184*	*78*	*116*
• *not eligible for hedge accounting*	*1,549*	*934*	–
TOTAL	**5,003**	**7,645**	**(3,445)**

(1) Cash flow hedges

At 31 March 2011	Financial instruments - Assets	Financial instruments - Liabilities	Unrealised capital gains/ (losses) taken to equity
Interest rate hedges(1)	1,135	1,603	(635)
Raw material hedges(1)	–	25	(25)
Foreign exchange hedges	6,484	6,424	278
• *fair value hedges*	*4,776*	*4,615*	–
• *cash flow hedges*	*352*	*102*	*278*
• *not eligible for hedge accounting*	*1,356*	*1,707*	–
TOTAL	**7,619**	**8,052**	**(382)**

(1) Cash flow hedges

7.4. Commitments received

Nil.

7.5. Individual Training Right (ITR)

The employees of Faiveley Transport are entitled to request additional training. A total of 110 hours of training in respect of the ITR was requested by employees during the financial year. At 31 March 2012, a total of 3,255 unused training hours had been accumulated.

7.6. Share purchase option plan of 27 September 2005

On request from Faiveley Transport, Faiveley S.A. implemented a share purchase option plan for the benefit of key Faiveley Transport Group management (excluding the managers who invested in Faiveley Management S.A.S.).

This share option plan, for a maximum of 325,000 Faiveley Transport shares, was approved by the General Meeting on 27 September 2005 and was implemented by the Management Board. The table in Note C.5.1 "Share capital", details the share allocations. At 31 March 2012, 77,035 shares were outstanding.

The options are exercisable as of the second anniversary date of their allocation by the Chairman of the Management Board, provided the beneficiary is still employed by the Faiveley Transport Group on the day of exercise and has accepted the options terms and conditions. The shares are not transferable until the 4th anniversary of the allocation of purchase options. It should be noted that 239,005 share purchase options have been exercised at 31 March 2012.

7.7. Share subscription plan of 22 September 2009

The Combined General Meeting of 22 September 2009 delegated to the Management Board powers in relation to:
- granting share subscription and/or purchase options;
- issuing shares or marketable securities giving right to the allocation of new or already issued shares of the Company, with, in the case of the allocation of new shares, the cancellation of the pre-emption right.

At its meeting of 23 November 2009, the Management Board decided to grant, on this date and up to 23 November 2017, options giving right to subscribe to new shares in the Company, to be issued through a share capital increase not exceeding an overall nominal amount of €144,000, corresponding to 144,000 new shares at a par value of €1 each. The new shares will be issued at a price of €54.91.

7.8. Free performance-based share allocation plan authorised by the General Meeting of 13 September 2010

The Combined General Meeting of 13 September 2010 delegated the Management Board powers to allocate free shares of the Company, either new or already issued. The General Meeting established a minimum vesting period of two years following which the allocation of ordinary shares to beneficiaries will be final, subject to the potential terms and conditions set out by the Management Board, and a retention period of a minimum of two years from the date of final allocation of the shares.

In its meetings held on 3 December 2010 and 24 February 2011, the Management Board decided to allocate a total of 69,700 shares to 43 beneficiaries. At 31 March 2012, 7,400 performance-based shares previously granted have been cancelled.

7.9. Free share allocation plan authorised by the General Meeting of 14 September 2011

The Combined General Meeting of 14 September 2011 delegated the Management Board powers to allocate free shares of the Company, either new or already issued. The General Meeting established a minimum vesting period of two years following which the allocation of ordinary shares to beneficiaries will be final, subject to the potential terms and conditions set out by the Management Board, and a retention period of a minimum of two years from the date of final allocation of the shares.

However, the General Meeting authorised the Management Board, to the extent that the minimum vesting period for some or all of the allocations would be a minimum of four years, not to impose a retention period for the shares in question.

In its meeting held on 5 March 2012, the Management Board decided to implement this authorisation and allocate a total of 79,224 shares to 151 beneficiaries.

8. STATUTORY AUDITORS' FEES

Statutory Auditors' fees are included in Note H of the 2011/2012 consolidated financial statements.

9. LIST OF SUBSIDIARIES AND EQUITY INVESTMENTS (€ THOUSANDS)

Subsidiary	Share Capital	Equity (other than share capital)	% of share capital held	Value of shares held	Net value of shares held	Loans and advances	Guarantees and commitments issued	Sales excluding tax	Dividends received
Faiveley Transport Amiens	8,100	60,503	100	20,000	20,000	–	10,183	93,638	–
Faiveley Transport NSF	983	13,257	100	12,758	12,758	–	2,932	28,653	–
Faiveley Transport Tours	39,965	60,088	100	39,422	39,422	–	9,569	147,309	–
Faiveley Transport Gennevilliers	5,000	298	100	5,000	5,000	15,625	–	14,837	–
Sofaport	96	(71)	60	36	36	–	–	–	–
Faiveley Transport Acquisition AB	114	21,382	100	156,409	156,409	36,630	–	–	–
Faiveley Transport Pilzen	8	453	100	6	6	–	–	2,245	–
Faiveley Transport Usa Inc.	1	30,678	100	36,706	36,706	44,754	9,537	–	–
Qingdao Faiveley Sri Rail Brake Co. Ltd.(1)	3,568	1,977	50	1,486	1,486	–	9,244	33,741	–
Datong Faiveley Couplers Systems Co. Ltd.(1)	595	64	50	237	237	–	–	1,807	–
Faiveley Transport Asia Pacific Co. Ltd.	–	(10)	100	–	–	877	–	–	–
Faiveley Transport Leipzig GmbH & Co KG	16,000	11,489	100	23,111	23,111	–	138,430	95,171	–
Nowe GmbH	125	1,818	75	2,007	2,007	–	401	4,799	750
Faiveley Transport Holding GmbH & Co KG	10	158,393	100	90,010	90,010	–	–	–	–
Shijiazhuang Jiaxiang Precision Machinery Co. Ltd(1)	4,281	7,500	50	1,892	1,892	–	–	19,416	589
Faiveley Transport Iberica S.A.	871	36,331	100	1,390	1,390	13,458	4,951	57,904	–
Faiveley Transport Do Brasil Ltda.	8,566	9,510	100	4,258	4,258	–	2,056	27,599	–
Faiveley Transport Italia Spa.	1,424	74,225	98,70	37,827	37,827	22,664	24,456	119,013	–
Faiveley Transport Tamworth Ltd.	60	7,164	100	66	66	–	–	9,360	–
Faiveley Transport Far East Ltd.	–	(552)	100	–	–	8,531	8,196	29,721	–
Faiveley Transport Lekov a.s.	2,159	6,809	100	5,884	5,884	5,688	201	22,858	–
F.M.R.P.	854	(538)	48	486	486	–	–	561	–
Faiveley Transport Canada Ltd.	–	19	100	–	–	773	30,226	1,659	–
Faiveley Transport Schweiz AG	83	2,022	80	2,926	2,926	–	–	5,428	–
Faiveley Transport Systems Technology (Beijing) Co. Ltd.(1)	2,292	(1,167)	100	2,000	2,000	–	4,803	591	–
Faiveley Transport Belgium	56,248	991	99.56	56,000	56,000	–	–	4,644	–

(1) Data reported at the local 31 December 2011 year-end for the four Chinese subsidiaries.

V. FAIVELEY TRANSPORT 5-YEAR FINANCIAL SUMMARY

	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
I. Share capital at year-end					
a. Share capital	12,529,585	14,404,711	14,404,711	14,404,711	14,614,152
b. Number of ordinary shares in issue	12,529,585	14,404,711	14,404,711	14,404,711	14,614,152
c. Share per value	1	1	1	1	1
d. Number of preference dividend shares (without voting rights) in issue	–	–	–	–	–
e. Maximum number of shares to be issued					
1. by conversion of bonds	–	–	–	–	–
2. by exercise of subscription rights	–	–	–	–	–
3. by exercise of equity warrants	–	–	–	–	–
II. Operations and results for the financial year					
a. Sales (ex VAT)	1,410,338	1,401,867	48,564,676	48,860,272	52,681,294
b. Profit before tax, amortisation, depreciation and provision charges and profit-sharing	73,880	71,223,334	36,482,013	(3,091,896)	(10,825,972)
c. Income tax	–	(5,209,593)	(4,630,407)	(741,771)	(834,864)
d. Employee profit-sharing for the period	–	–	–	–	–
e. Profit after tax, amortisation, depreciation and provision charges and profit-sharing	2,153,971	76,886,871	41,307,869	(1,757,424)	(10,998,977)
f. Cash dividends paid	4,385,355	14,404,711	17,285,653	17,285,653	12,422,029
III. Earnings per share					
a. Earnings per share after tax, but before amortisation, depreciation and provision charges	0.01	5.31	2.85	(0.16)	(0.68)
b. Earnings per share after tax and amortisation, depreciation and provision charges	0.17	5.34	2.87	(0.12)	(0.75)
c. Cash dividend per share	0.35	1.00	1.20	1.20	0.85
IV. Workforce					
a. Average workforce for the period	4	3	66	89	78
b. Total payroll for the period	141,148	199,443	9,447,515	11,169,044	11,694,975
c. Total sums paid as employee benefits over the period (social security contributions, charities, etc.)	53,599	51,164	3,049,558	4,108,527	3,982,742

STATUTORY AUDITORS' **REPORT**

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On financial statements

For the year ended 31 March 2012

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below in the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by the Annual General Meeting, we hereby report to you, for the year ended 31 March 2012, on:
- the audit of the accompanying financial statements of Faiveley Transport;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

I. OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance regarding whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence regarding the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the financial statements provide a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 March 2012 and the results of its operation for the year then ended in accordance with French accounting principles.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirement of Article L. 823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

As indicated in the Notes B.3.1 and B.3.3 to the financial statements, an impairment test is performed concerning the technical loss at each year-end and investments are valued at their value in use for the Company at the year-end. Our procedures consisted in assessing the financial information and assumptions on which these estimates are based and reviewing the calculations performed by the Company. On this basis, we assessed the reasonableness of estimates made.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed, which is expressed in the first part of this report.

III. SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Management Board and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your company or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

In accordance with the French law, we have verified that the required information concerning the identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine and Dijon, 16 July 2012

The Statutory Auditors

PRICEWATERHOUSECOOPERS AUDIT	EXPERTISE COMPTABLE ET AUDIT
Philippe Vincent	Jérôme Burrier

STATUTORY AUDITORS' SPECIAL REPORT

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On related-party agreements and commitments

Annual General Meeting to approve the financial statements for the year ended 31 March 2012

This is a free translation into English of the Statutory Auditors' special report on related-party agreements and commitments issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report to you on related-party agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of Article R.225-58 of the French Commercial Code, it is the responsibility of shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is also our responsibility to provide shareholders with the information required by Article R.225-58 of the French Commercial Code in relation to the implementation during the year of agreements and commitments already approved by the Annual General Meeting.

We performed the procedures that we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie nationale des commissaires aux comptes) applicable to such engagements. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

I. AGREEMENTS AND COMMITMENTS SUBMITTED FOR THE APPROVAL OF THE ANNUAL GENERAL MEETING

Agreements and commitments authorised during the year

In accordance with Article L. 225-86 of the French Commercial Code, we were informed of the following agreements and commitments authorised by the Supervisory Board.

With Thierry Barel

(Supervisory Board Meeting of 9 June 2011)

As a result of his appointment as Chairman of the Management Board, Thierry Barel resigned and, consequently, put an end to his employment contract with the Company.

On this occasion, the Remuneration Committee of the Supervisory Board examined the adjustments related to the end of Thierry Barel's employment contract and suggested that, in case of his dismissal by the Supervisory Board, he could receive an indemnity based on performance standards. The indemnity could amount to a maximum of eighteen months of total remuneration.

The performance for the measurement of this indemnity is the rate of the achievement of annual goals set by the Supervisory Board. These annual goals are used for the calculation of the annual variable remuneration. The measurement of this performance is the average of the performance accomplished by Thierry Barel during the three years for which results have been published and preceding his dismissal by the Supervisory Board.

With Didier Alix

(Supervisory Board Meeting of 22 July 2011)

Your Company concluded an amendment to the credit agreement of 22 December 2008 with a pool of nine banks. The main changes are as follows:

- extension of the term of loans (last redemption date in June 2016 compared to December 2013 in the original agreement);
- lifting of guarantees granted under the original agreement;
- option to have recourse to non-bank debt with a higher amount than the one originally specified in the agreement;
- relaxing of the bank covenants.

One of the banks concerned by the signature of this amendment is Société Générale. Didier Alix, member of the Supervisory Board of your Company, holds the position of Adviser to the Chairman. As Didier Alix did not take part in the vote, the Supervisory Board authorised the Management Board to sign this amendment.

With Robert Joyeux

(Supervisory Board Meeting of 27 March 2012)

The Supervisory Board authorised the Chairman of the Management Board to sign an amendment to the consulting and assistance agreement of 22 April 2011, signed between the Company and Robert Joyeux. As a member of the Supervisory Board since the General Meeting of 14 September 2011, Robert Joyeux did not take part in the vote.

This amendment is designed to extend the term of the consulting mission provided by Robert Joyeux to the management of the Company and to define the additional fees for €194,000 exclusive of tax, which will be received by Robert Joyeux on this occasion.

II. GREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE ANNUAL GENERAL MEETING

Agreements and commitments approved in previous years which remained in force during the year.

In accordance with Article R.225-57 of the French Commercial Code, we were informed that the following agreements and commitments, approved by your Annual General Meeting in previous years, remained in force during the year ended 31 March 2012.

With Robert Joyeux

Memorandum of understanding with the managers and amendment n°1 – Sale and transfer of Faiveley Management shares to Faiveley S.A. (which became Faiveley Transport on 22 September 2009).

As part of its capital restructuring operations, Faiveley Transport signed a memorandum of understanding on 16 October 2008 and an amendment to this memorandum of understanding on 17 November 2008 with the managers and their spouses who are shareholders of Faiveley Management SAS.

Within the framework of the memorandum of understanding of 16 October 2008, Robert Joyeux received 140,610 Faiveley Transport shares in exchange for 164,430 Faiveley Management shares provided to Faiveley Transport. Robert Joyeux is committed to retaining all his Faiveley Transport shares for two years with effect from 23 December 2008 and two third of his shares for three years with effect from 23 December 2008. This later agreement had not been applied during the year.

Furthermore, for a period of six years with effect from 23 December 2008, any disposal of any block of 10,000 shares in Faiveley Transport is subject to a pre-emption right of Faiveley Transport.

With François Faiveley Participations SAS

In application of the technical, commercial and administrative assistance agreement concluded between FFP and Faiveley Transport on 26 June 2004, and in respect of the re-invoicing of rents and services provided, Faiveley Transport recorded the following amounts as income and expense during the year ended 31 March 2012.

In euro	Faiveley Transport expenses	Faiveley Transport income
Assistance agreement and provision of services	365,000	1,020
Re-invoicing of rents and charges	–	2,150

Neuilly-sur-Seine and Dijon, 16 July 2012

The Statutory Auditors

PRICEWATERHOUSECOOPERS AUDIT	EXPERTISE COMPTABLE ET AUDIT
Philippe Vincent	Jérôme Burrier

DRAFT RESOLUTIONS TO BE SUBMITTED TO THE COMBINED GENERAL MEETING

Of 14 September 2012, called to consider the financial statements for the year ending 31 March 2012

I. RESOLUTIONS IN THE ORDINARY SESSION

First resolution

Approval of the parent company financial statements for the year ending 31 March 2012

The General Meeting, with the required quorum and majority for Ordinary General Meetings, having considered the management report of the Management Board and the observations of the Supervisory Board on the operations of the Company for the financial year ending 31 March 2012 and on the financial statements of that year, and having considered the Statutory Auditors' report on the execution of their assignment for this financial year, approves the company financial statements for the year ending 31 March 2012, as presented, showing a loss of €10,998,977.46, and the transactions recorded in these financial statements and summarised in these reports.

Consequently, the General Meeting discharges the Management Board for the execution of their duties for this financial year.

Second resolution

Allocation of profit for the year ending 31 March 2012

The General Meeting, with the required quorum and majority for Ordinary General Meetings, on the proposal of the Management Board, agrees to allocate the profit for the year ending 31 March 2012 as follows:

• Loss for the financial year	(€10,998,977.46)
• Added to:	
– Retained earnings from prior years	€67,796,499.37
• Distributable profit	€56,797,521.91
– Transfer to legal reserve:	(€20,944.10)
– Cash dividend of €0.85 per share:	(€12,422,029.20)

The balance of €44,354,548.61 will be transferred in full to retained earnings.

Taking account of these allocations, the Company shareholders' equity will be €165,384,526.63.

The dividend will be payable from 19 September 2012.

Pursuant to Article 158 of the General Tax Code, the dividend distributed will entitle individual shareholders only to a rebate of 40% on the amount received.

According to the provisions of Article 243(ii) of the General Tax Code, the General Meeting notes the amount of dividends distributed in the last three financial years:

Year	Dividend
2008/2009	€1.00
2009/2010	€1.20
2010/2011	€1.20

If, at the time of the payment the Company holds treasury shares, the distributable profit corresponding to the unpaid dividend due to the holding of the shares shall be allocated to the account "retained earnings.

Third resolution

Approval of the Consolidated Financial Statements for the year ended 31 March 2012

The Annual General Meeting, with the required quorum and majority for Ordinary General Meetings, having considered the management report of the Management Board and the observations of the Supervisory Board on the operations of the Group for the financial year ended 31 March 2012 and on the consolidated financial statements of that year, and having considered the report on the consolidated financial statements from the Statutory Auditors in the execution of their assignment for this financial year, approves the Consolidated Financial Statements of the year ended 31 March 2012, as presented, and the transactions recorded in these financial statements and summarised in these reports.

Fourth resolution

Directors' fees

The General Meeting, with the required quorum and majority for Ordinary General Meetings sets the amount for fees allocated to the Supervisory Board for the financial year ended 31 March 2012, at €260,000.

Fifth resolution

Approval of the transactions and agreements referred to under Articles L. 225-86 and subsequent of the Commercial Code

The General Meeting, with the required quorum and majority for Ordinary General Meetings, having considered the Statutory Auditors' special report on the agreements referred to under Articles L. 225-86 and subsequent of the Commercial Code, notes and approves the terms of this report and the agreements mentioned therein.

Sixth resolution

Renewal of the term of office of a member of the Supervisory Board

The General Meeting, with the required quorum and majority for Ordinary General Meetings, decides to renew the term of office of Philippe Alfroid as member of the Supervisory Board for a period of three years, which will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2015.

Seventh resolution

Renewal of the term of office of a member of the Supervisory Board

The General Meeting, with the required quorum and majority for Ordinary General Meetings, decides to renew the term of office of François Faiveley as member of the Supervisory Board for a period of three years, which will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2015.

Eighth resolution

Renewal of the term of office of a member of the Supervisory Board

The General Meeting, with the required quorum and majority for Ordinary General Meetings, decides to renew the term of office of Didier Alix as member of the Supervisory Board for a period of three years, which will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2015.

Ninth resolution

Authorisation given to the Management Board to trade in the shares of the Company

The General Meeting, with the required quorum and majority for Ordinary General Meetings, having considered the report of the Management Board, authorises the Management Board, with the facility to sub-delegate to its Chairman and/or one of its members, with the approval of the Chairman and within legal limits, pursuant to Articles L. 225-209 and subsequent of the Commercial Code, to purchase or sell shares in the Company.

The General Meeting decides that transactions may be carried out to:

- ensure the liquidity and to support the market for Faiveley Transport shares by an investment services provider via a liquidity contract that complies with the ethics charter recognised by the Autorité des Marchés Financiers;
- grant them to employees and senior executives of the Group according to the terms and conditions provided by law (options to purchase shares, employee profit-sharing, allocation of free shares);
- cancel them by way of reduction in capital within the limits set by law;
- retain them within the limit of 5% of the capital and use them in exchange or payment, in particular as part of acquisitions initiated by the Company, by way of public offer or other;
- implement any other market practice that is permitted by the Autorité des Marchés Financiers and more generally all transactions complying with applicable regulations.

Company shares may be purchased providing the total number of shares held by the Company following these purchases does not exceed 10% of the shares comprising the capital of the Company, this percentage being applied to capital adjusted according to the transactions that may occur subsequent to the current General Meeting.

The purchases, disposals, exchange or transfer may be made by any means, on the market or principal to principal, including by acquisition or disposal of blocks, or by recourse to derivative financial instruments, under the conditions provided by market authorities and regulations. The maximum share capital acquired, disposed of, exchanged or transferred by of a block of securities may relate to the entire buyback programme.

The maximum purchase price is set at €70 per share.

The General Meeting delegates to the Management Board the power to adjust the above purchase price in order to take account of the incidence of possible financial transactions on the value of the share. In particular, in the event of an increase in capital by incorporation of reserves and the issue of free shares, the price indicated above will be adjusted by a coefficient of a multiplier equal to the ratio of the number of securities comprising the share capital before the transaction and after the transaction.

The total amount allocated to the repurchase programme is €51 million.

This authorisation remains valid for eighteen months with effect from this day.

The General Meeting confers all powers to the Management Board, with the facility to delegate, to decide and implement the buyback programme, and in particular to issue stock exchange instructions, conclude all agreements, carry out all formalities and make declarations to the Autorité des Marchés Financiers and any other organisation, and in general, do everything necessary to complete the transactions carried out under the present authorisation.

This resolution replaces and cancels the authorisation granted by the seventh resolution approved by the Combined General Meeting of 14 September 2011.

II. RESOLUTION IN EXTRAORDINARY SESSION

Tenth resolution

Amendments to Articles 7, 18, 32, 39 and 50 of the bylaws (Codification of the Decree of 23 March 1967)

The General Meeting, with the required quorum and majority for Extraordinary General Meetings, having considered the report of the Management Board, decides to amend Articles 7, 18, 32, 39 and 50 of the bylaws, by cancelling references to the Decree of 23 March 1967 and replacing them by the corresponding articles of the Commercial Code.

In Article 7 of the bylaws, the reference to Article 62 of the Decree of 23 March 1967 is thus replaced by a reference to Article R. 225-6 of the Commercial Code.

In Article 18 of the bylaws, the reference to Articles 113 and 113-1 of the Decree of 23 March 1967 is thus replaced by a reference to Articles R. 223-53 and R. 223-54 of the Commercial Code.

In Article 32 of the bylaws, the reference to Article 123 of the Decree of 23 March 1967 is thus replaced by a reference to Article R. 225-66 of the Commercial Code.

In Article 39 of the bylaws, the reference to Article 149 of the Decree of 23 March 1967 is thus replaced by a reference to Article R. 225-106 of the Commercial Code.

In Article 50 of the bylaws, the reference to Articles 266 and subsequent of the Decree of 23 March 1967 is thus replaced by a reference to Articles R. 237-1 and subsequent of the Commercial Code.

Eleventh resolution

Amendments to Articles 16, 20, 23, 25, 28 and 35 of the bylaws (Update following the various legislative reforms)

The General Meeting, with the required quorum and majority for Extraordinary General Meetings, having considered the report of the Management Board, in order to take account of the changes introduced by recent reforms on company law and to bring the bylaws in conformity with applicable legislation, decides to modify the following articles:

- Firstly, Article 16 of the bylaws which now reads:

  " ...
  No person may be appointed as a member of the Management Board if he/she does not meet the qualifying requirement required for directors of sociétés anonymes (French limited companies), is affected by conflicts of interests, disqualification or prohibitions to exercise these duties, if he/she has been a statutory auditor of the Company over the last five financial years, a member of the Supervisory Board, is already a member of the management board of two other companies or acts as chairman of two other limited companies.
  ... "

  The remainder of Article 16 of the bylaws is unchanged.

- Secondly, Article 20 of the bylaws which now reads:

  "...
  VI. – Minutes of deliberations
  An attendance register is maintained and signed by the Supervisory Board members who attended the Supervisory Board meeting.
  Minutes are produced after each meeting, specifying the name of members of the Supervisory Board attending the meeting, excused or absent. They must mention the presence or absence of persons convened to the meeting of the Supervisory Board and the presence of any other person who attended all or part of the meeting.
  If necessary, the minutes record the duty of confidentiality imposed on persons attending the meeting pursuant to the Chairman's declaration, which should also be recorded.
  The minutes must be signed by the Chairman and at least one member of the Supervisory Board. In the event that the Chairman is unable to act, the minutes are signed by at least two board members.
  The minutes are retained and drafted in accordance with applicable legal provisions. Copies or excerpts of minutes of the deliberations are validly certified by the Chairman of the Supervisory Board, the Vice-Chairman, the Secretary, a member of the Management Board or any person duly empowered to this effect.
  In the event of the Company's liquidation, copies or excerpts may only be validly certified by a liquidator."

  The remainder of Article 20 of the bylaws is unchanged.

- Thirdly, Article 23 of the bylaws, which now reads:

  "...
  III.- Ordinary agreements
  Agreements performed in the ordinary course of business and carried out on an arm's length basis are not subject to the legal authorisation and approval procedure referred to under Articles L. 225-86 and subsequent of the Commercial Code."

  The remainder of Article 23 of the bylaws is unchanged.

- Fourthly, Article 25 of the bylaws, which now reads:

  "The statutory auditors are vested with the duties and powers assigned to them by Articles L. 225-218 and subsequent of the Commercial Code.
  The statutory auditors are convened to all Management Board and Supervisory Board meetings held to examine or approve the financial statements for the prior year or prior interim period, as well as all General Meetings.
  The statutory auditors are convened to these meetings by registered letter with acknowledgment of receipt."

- Fifthly, Article 28 of the bylaws, which now reads:

  "...
  I.- Role and jurisdiction
  The Ordinary General Meeting may make any decision other than those that are reserved for the Extraordinary General Meeting by the law and these bylaws.
  The Ordinary General Meeting meets at least once a year within six months of year-end. However, this deadline may be extended by an order of the President of the Commercial Court at the request of the Management Board.

It exercises the powers conferred upon it by the law, in particular:
- hearing the reading of the Management Board's management report on Company operations and the Statutory Auditors' reports;

…
- ratifying the relocation of the head office, as decided by the Supervisory Board.

It also authorises the purchase of a property belonging to a shareholder.
… "

The remainder of Article 28 of the bylaws is unchanged.

• Sixthly, Article 35 of the bylaws, which now reads:
"I.- Shareholders' representation
Shareholders may be represented by another shareholder, by their spouse or by their partner with whom a French civil solidarity pact has been signed. They may also be represented by any other individual or legal entity of their choice.
…"

The remainder of Article 35 of the bylaws is unchanged.

Twelfth resolution

Authorisation to the Management Board to proceed with the allocation of free shares, either existing or to be issued

The General Meeting, with the required quorum and majority for Extraordinary General Meetings, having considered the report of the Management Board and the special report of the Statutory Auditors, authorises the Management Board, pursuant to Articles L. 225-197-1 and subsequent of the Commercial Code, to proceed, on one or more occasions, with the allocation of free ordinary shares in the Company, existing or to be issued, for the benefit of senior executives as defined by law and to certain members of the personnel of the Company and companies related to it.

The General Meeting sets the period of acquisition at the end of which the allocation of ordinary shares by the beneficiaries becomes final, subject to potential conditions determined by the Management Board, to a minimum period of 2 years and sets the period of compulsory retention of the shares by the beneficiaries, at a minimum of 2 years with effect from the final allocation date of the shares.

However, the General Meeting authorises the Management Board not to impose any retention period for the shares concerned, to the extent that the vesting period of one or several allocations is a minimum of four years.

The General Meeting decides that the total number of free shares allocated pursuant to this resolution may not exceed 1% of the share capital at the date of the current General Meeting.

The General Meeting notes that free shares allocated may be existing shares or shares to be issued, and authorises the Management Board, in the event of an allocation of free shares to be issued, to increase the share capital, at the end of the acquisition period, by the capitalisation of reserves, profits or issue premiums for the benefit of the beneficiaries of the said shares, with this decision carrying the full waiver by shareholders of their pre-emption right to subscribe for the benefit of beneficiaries of free shares from the reserves, profit or premiums thus capitalised, with stipulation that the increase in capital will be carried out by the sole fact of the final allocation of shares to the beneficiaries.

The General Meeting grants all powers to the Management Board, which will be supported by the Remuneration Committee, within the limits set above, to:
- set the conditions and, where appropriate, the allocation criteria for ordinary shares;
- within the legal conditions and limits, set the dates on which the allocations will proceed;
- determine the identity of beneficiaries, the number of ordinary shares allocated to each of them and the means of allocation of ordinary shares.

The General Meeting sets the validity of this authorisation at thirty-eight months from this date. This authorisation cancels any amounts unused by the Management Board by virtue of the previous authorisation granted by the General Meeting of 14 September 2011.

The Management Board will inform the Ordinary General Meeting every year of transactions carried out by virtue of the present authorisation in a special report, pursuant to Article L. 225-197-4 of the Commercial Code.

III. RESOLUTIONS RELATIVE TO BOTH MEETINGS

Thirteenth resolution

Powers for formalities

The Annual General Meeting confers full powers to the bearer of copies or extracts of the minutes recording its decisions to carry out all the legal formalities of publication.

/02

CORPORATE GOVERNANCE

REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD

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On the operation of the Supervisory Board and on internal control within Faiveley Transport

Dear Shareholders,

Pursuant to the provisions of Article L. 225-68 of the Commercial Code, I hereby inform you by the present report:

- of the conditions for the preparation and organisation of the work of your Supervisory Board during the financial year ended 31 March 2012;
- the principles and rules agreed by the Board to determine the remuneration and benefits of all kind granted to senior executives;
- of the internal control procedures implemented by the Company;
- other information required by Article L. 225-68 of the Commercial Code.

The current report was discussed and approved by the Supervisory Board at its meeting of 6 June 2012.

I. PREPARATION AND ORGANISATION OF THE SUPERVISORY BOARD'S WORK

1.1. Functioning of the Board

The Supervisory Board continuously ensures, by all appropriate means, control over the Company's management by the Management Board. The Supervisory Board is kept up-to-date by the Management Board on a regular basis through quarterly reports on the businesses and operations of the Company and its subsidiaries.

As part of its legal duties, the Supervisory Board exercises permanent control over the Company's management by the Management Board. At all times of the year, it carries out verifications and checks that it considers appropriate and may request documentation it considers useful to the completion of its duties. The Management Board presents an operating report to the Supervisory Board at last once per quarter.

The Supervisory Board appoints the members of the Management Board and sets their remuneration. It can also dismiss them in accordance with the bylaws. It appoints the Chairman of the Management Board and can also appoint the Chief Executive(s).
The Supervisory Board checks and monitors the half-year and full-year parent company and consolidated financial statements prepared by the Management Board.

At the Ordinary General Meeting, it presents a report containing its observations on the Management Board's report as well as on the financial statements for the year.

The Supervisory Board approves and monitors the execution of the medium and long-term strategy presented by the Chairman of the Management Board. It monitors the quality of information provided to shareholders as well as the markets, via the financial statements or when major transactions are effected.

In addition to the provisions of the bylaws, prior approval by the Supervisory Board is required for all significant transactions in respect of the scope of the Company's business (acquisitions, disposals, internal restructuring) or outside the approved strategy of the business. It is regularly informed of the financial position, the cash position and the commitments of the Company.

The Chairman calls the Supervisory Board as often as required in the interests of the Company and at least once per quarter following the release of the periodic report by the Management Board.

The Supervisory Board's deliberations are not valid unless at least half its members are present and decisions are made by a majority of members. In the event of a tie, the Chairman has the deciding vote.

At any one meeting, Directors may hold no more than one proxy received from a Director who could not attend.

In order to conform to the AFEP-MEDEF corporate governance code for listed companies of December 2008, the Supervisory Board added to the agenda of its meeting on 22 April 2010 a revision to its internal regulations providing and specifying:

- its powers,
- it operating rules,
- the terms and conditions of meetings and the organisation and preparation of the work of the Board,
- the information required by members of the Supervisory Board in carrying out their duties.

Following the recommendation of the AMF (the French Financial Market Authority) of 3 November 2010 on the prevention of insider trading violations by management, at its meeting on 24 February 2011, the Supervisory Board decided to clearly define the trading restriction periods during which management and permanent insiders are prohibited from effecting transactions on the Company's securities. The Supervisory Board also amended its internal regulations and brought the Company's Code of Conduct into compliance at the same meeting. The Supervisory Board's internal regulations are available on the Company's website. A calendar of restriction periods is forwarded to all members of the Supervisory Board, the Management Board and permanent insiders of the Company at the beginning of each financial year.

Moreover, at the meeting held on 24 March 2011, the Supervisory Board reviewed the provisions of the law of 27 January 2011 concerning the fair representation of women and men on boards of directors and supervisory boards and decided to comply with the requirements of this regulation. Hélène Auriol-Potier and Nicoletta Giadrossi-Morel were appointed members of the Supervisory Board by the General Meeting of 14 September 2011 and may be deemed independent in accordance with criteria set by the Charter adopted by the Supervisory Board on the matter.

In light of their legal assignments, each member of the Supervisory Board is bound by the basic obligations of loyalty, confidentiality and due diligence.

The Board adopted a Charter for members of the Supervisory Board that defines the criteria adopted to qualify as an Independent Director, as well as the obligations of members of the Supervisory Board. This Charter is also available at the registered office of the Company.

It specifically states that at least two of the members of the Supervisory Board must meet the qualification of Independent Director.

Aside from the required expertise and experience, a member of the Supervisory Board is deemed independent where he/she has no direct or indirect relationship, of whatever nature, with the Company, its group or its management that may compromise the exercise of freedom of judgment and their completely objective participation in the work of the Supervisory Board.

To be considered an Independent Director, a member of the Supervisory Board must satisfy the following criteria:
- they must not be or have been an employee or executive of the Company or an employee or director of a company that has been consolidated during the past five years;
- must not be a senior executive of a company where the Company, directly or indirectly, holds a position as Director or has an employee appointed as such, or where a senior executive of the Company holds, or has held in the last five years, the position of Director;
- must not be a customer, supplier, commercial partner, merchant banker or financing banker:
  - that is of significance to the Company or its group,
  - or where the Company or its group represent a significant part of the activities;
- must not be directly or indirectly related, nor have been directly or indirectly related during the last five years, to such a customer, supplier, commercial partner, merchant banker or investment banker;
- must not have any close family relationship with a senior executive of the Company;
- must not have been an auditor to the business during the previous five years;
- must not have been a member of the Supervisory Board for more than twelve years;
- must not hold, directly or indirectly, a shareholding equal to or greater than 10% in the share capital or voting rights of the Company or in any one of the companies of its Group, nor be related in any way whatsoever to a shareholder holding more than 10% of the capital or the voting rights of the Company or a company of its Group.

Every year, at the meeting to consider the financial statements of the year just ended, the Supervisory Board examines the position of each of its members on a case by case basis with regard to the criteria of this clause, and brings the conclusions of its examination to the attention of the shareholders in its annual report so that the Independent Directors are identified. Thus, the members of the Supervisory Board deemed to be independent are:
- Hélène Auriol-Potier;
- Christian Germa;
- Nicoletta Giadrossi-Morel;
- Maurice Marchand-Tonel.

Christian Germa was a Director of Faiveley Transport before all the assets and liabilities of this company were transferred to Faiveley S.A. (subsequently renamed Faiveley Transport). Following discussions within the Supervisory Board, Christian Germa has been deemed an "independent member". The Supervisory Board noted that he exercises his professional activities in a field which is wholly unrelated to the railway industry, that he is neither related nor connected in a private capacity with the principal shareholder, and that he is not a key shareholder of the Company.

Finally, beyond the sole statutory requirements, internal regulations require that each member of the Supervisory Board be a shareholder in a personal capacity. It was decided that each member of the Supervisory Board should acquire at least two hundred (200) Company shares. During this financial year, board members regularised their status to conform to this new provision of the internal regulations.

1.2. Frequency of meetings

During the last financial year, the Supervisory Board met nine times.

The agendas of the Board meetings were as follows:
- On **1 April 2011**, with the following agenda:
  - Approval of the minutes of the previous meeting,
  - Appointment of a new Chairman of the Management Board,
  - Appointment of a new member of the Management Board,
  - Remuneration of the members of the Management Board,
  - Miscellaneous.

- On **21 April 2011**, with the following agenda:
  - Approval of the minutes of the previous meeting,
  - Review of annual sales for the year ended 31 March 2011,
  - Review of the recommendations of the AFEP-MEDEF with regards to the incompatibility between a work contract and a term of office,
  - Review of the procedure for the renewal of the term of office of the Statutory Auditors,
  - Review of the timetable of future Supervisory Board, Audit and Risk Committee, Remuneration Committee and Steering Committee's meetings,
  - Miscellaneous.

- On **9 June 2011**, with the following agenda:
  - Approval of the minutes of the previous meeting,
  - Presentation by the Management Board and observations of the Board on the parent company and consolidated financial statements for the year ending 31 March 2011,

- Presentation of the Audit and Risk Committee's report,
- Presentation and approval of the Supervisory Board's report on the management report prepared by the Management Board for the Annual General Meeting,
- Presentation and approval of the Chairman's draft report on internal audit procedures and preparation and organisation of the Board's work for the Annual General Meeting,
- Review of draft resolutions submitted by the Management Board at the Annual General Meeting,
- Review of the list of related-party agreements over the previous year under Article L. 225-86 of the Commercial Code,
- Renewal of the terms of office of members of the Management Board,
- Presentation of the conclusions of the Remuneration Committee on the remuneration of Board members and amendments related to the termination of the employment contract of the Chairman of the Management Board,
- Relocation of head office,
- Approval of a related-party agreement under Article L. 225-86 of the Commercial Code,
- Miscellaneous.

• On **22 July 2011**, with the following agenda:
- Approval of the minutes of the previous meeting,
- Review of sales for the first quarter of 2011/2012,
- Review of draft resolutions to be submitted by the Management Board at the Annual General Meeting,
- Selection of female applicants to the Supervisory Board to be submitted to the next General Meeting,
- Choice of new Statutory Auditors to be appointed during the next General Meeting,
- Request for the Management Board's preliminary authorisation regarding the issue of guarantee on behalf of the Company SFRT, governed by Chinese law,
- Miscellaneous.

• On **14 September 2011**, with the following agenda:
- Approval of the minutes of the previous meeting,
- Welcome to Hélène Auriol-Potier, Nicoletta Giadrossi-Morel and Robert Joyeux as new members of the Supervisory Board,
- Appointment of the Chairman and Vice-Chairman of the Supervisory Board,
- Miscellaneous.

• On **19 October 2011**, with the following agenda:
- Approval of the minutes of the previous meeting,
- Review of sales for the first half of the 2011/2012 financial year presented by the Management Board and outlook,
- Review of opportunities for acquisitions,
- Miscellaneous.

• On **23 November 2011**, with the following agenda:
- Approval of the minutes of the previous meeting,
- Presentation and approval of interim financial statements approved by the Management Board on 23 November 2011,
- Update on on-going acquisitions,
- Implementation by the Management Board of a free performance-based share distribution plan: presentation of plan regulations and mechanisms, retention obligation for senior executives executive and eligible beneficiaries,
- Implementation by the Management Board of the delegation of authority granted by the Shareholders' General Meeting of 14 September 2011 to increase the share capital by private placement, with waiver of the subscription right, pursuant to Articles L. 225-129 and subsequent of the Commercial Code,
- Miscellaneous.

• On **24 January 2012**, with the following agenda:
- Approval of the minutes of the previous meeting,
- Review of sales for the 3rd quarter of the 2011/2012 financial year and the draft press release,
- Annual authorisation of guarantees, sureties and securities granted to the Management Board,
- Monitoring of transactions related to the acquisition and financing of Graham-White Manufacturing Co.,
- Allocation of free shares of the Company to senior executives (in respect of the plan set out by the Management Board on 23 November 2011),
- Miscellaneous.

• On **27 March 2012**, with the following agenda:
- Approval of the minutes of the previous meeting,
- Review of the 2012/2013 budget,
- Allocation of free shares of the Company to senior executives (in respect of the plan set out by the Management Board on 23 November 2011),
- Miscellaneous.

1.3. Convening meetings of the Supervisory Board members

In accordance with Article 20-III of the bylaws, the advance notice required for formal meetings of the members of the Supervisory Board is four days.

Each member has the option of being represented by another member at the board meetings.

The meetings are chaired by the Chairman of the Supervisory Board, or in his absence, by the Vice-Chairman.

1.4. Information for Supervisory Board members

Before a meeting, each member receives Group financial information and a file detailing the items included on the agenda for the meeting.

1.5. Directors' fees

Details are provided in the Management Report of the Management Board.

1.6. Location of the meetings

In general, meetings of the Supervisory Board take place at the registered office, however, occasionally, certain meetings are held in other locations.

1.7. Minutes of the meetings

Minutes of Supervisory Board meetings are drafted at the end of each meeting and are immediately forwarded to all board members.

1.8. Summary of 2011/2012 activity

During the year ended 31 March 2012, the Board met nine times. The attendance rate was 82.8%. All nine meetings were chaired by the Chairman of the Supervisory Board, Philippe Alfroid.

During the financial year, all Management Board members attended meetings and presented items on the agenda within their respective areas of expertise to the Supervisory Board.

The Group's Legal Counsel attended all Board meetings and acted as secretary to the meetings.

Pursuant to Article L. 225-238 of the Commercial Code, the Statutory Auditors were invited to the Board meetings at which the interim and year-end financial statements were presented and approved.

1.9. Rules governing directors' remuneration and other benefits

Remuneration of executives, detailed in the Management Board's report, is determined by the Remuneration Committee and the Supervisory Board. All the information required under Article L. 225-102-1 of the Commercial Code is presented in the Management Board's report.

The setting and granting of Directors' fees is decided at a meeting between the Chairman and the Vice-Chairman of the Supervisory Board, which specifically take account of the following criteria:

- Board meeting attendance;
- work carried out as part of the various committees;
- time devoted;
- personal expertise and contributions to the Board's deliberations.

The functioning of the Supervisory Board is then assessed by the Chairman and the Vice-Chairman. The frequency of meetings, the members' contribution to work carried out, work methods, governance rules and the composition of the Board are reviewed carefully in order to propose the improvements deemed necessary.

Directors' fees totalling €138,400 were allocated in respect of the financial year ending 31 March 2011.

In its decision dated 28 November 2008, the Supervisory Board adopted the principles of the AFEP-MEDEF corporate governance code. This Code includes:

- the October 2003 corporate governance code for listed companies, updated in April 2010;
- the October 2008 recommendations on Directors' remuneration.

The Supervisory Board has reservations concerning the rule against concurrently holding a term of office and an employment contract: it favours suspending employment contracts of senior executives at the time of their appointments as Chairman and Chief Executive Officer or as Chief Executive Officer, where their length of service in the business is at least ten years at the time of their appointment.

Upon the appointment of Thierry Barel as Chairman of the Management Board, his contract of employment was terminated. Changes made upon the termination of Thierry Barel's contract of employment have been discussed by the Supervisory Board which granted its prior approval in accordance with Articles L. 225-86 and L. 225-90-1 of the Commercial Code. The Supervisory Board has also defined the terms and conditions for the termination of Thierry Barel's duties as Chairman of the Management Board. Thus, should he be dismissed by the Supervisory Board, Mr Barel may avail of compensation based on performance criteria, up to a maximum amount of 18 months of total remuneration.

Only Thierry Barel is remunerated in his capacity as Chairman of the Management Board, the other members of the Management Board may not receive specific remuneration for their role as member of the Management Board. In addition, the members of the Management Board who are also managing directors of group companies do not receive any specific benefits for their roles.

The Management Board meeting of 29 December 2005 approved the terms of its internal regulations, by which all members are individually bound. The internal regulations specify the powers and duties of the Management Board and the procedures governing meetings and decision-making. A copy of the internal regulations is available at the registered office of the Company.

With regards to third parties and according to the bylaws, only the Chairman of the Management Board may represent the Company, unless decided otherwise by the Supervisory Board. Thierry Barel is the sole Chief Executive Officer and has no specific limits on his powers.

Management Board members were reappointed for a three-year term during a meeting of the Supervisory Board on 9 June 2011. The Management Board is currently made up of three people.

The Remuneration Committee is responsible for defining the share purchase and subscription option policy, as well as the policy governing the allocation of free shares to Directors and Executive Officers, in close collaboration with the Group's Human Resources Department. This policy is then implemented by the Management Board, which acts strictly within the bounds of the delegation granted to it by the shareholders' General Meeting.

II. INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

The Company has developed internal control and risk management procedures to ensure rigorous financial management and the control of risks associated with its business activities. The procedures are also aimed at ensuring that reliable information is provided regarding the Company's financial situation and in the financial statements provided to shareholders.

The internal control standard adopted by the Company is that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). According to this standard, internal control is a process which aims to provide reasonable assurance that the following objectives are met: the realisation and optimisation of transactions, reliability of financial information and compliance with the law and regulations in force. As with all systems of internal control, it cannot provide an absolute guarantee that all risks will be eliminated. As a result, the

Group's internal control system respects the operational framework recommended by COSO: organisation and principles of control, risk assessment processes, the actual control activities, documentation and communication of rules regarding control, supervision of the internal control system.

As regards internal control, the Company uses the general principles defined by the AMF (French Financial Market Authority).

2.1. Group objectives for internal control and risk management procedures

Internal control procedures implemented within the Faiveley Transport Group, which represents 100% of Group sales, meet the following objectives:

- to establish accurate, reliable reporting on the Company's accounting and financial information;
- to ensure that the information forwarded to the Supervisory Board of Faiveley Transport and to General Meetings is reliable and is a true reflection of the Company's business;
- to ensure that the operations carried out within the Company comply with current legislation and regulations in force and with the objectives laid down by General Management;
- to ensure adequate internal distribution of relevant and reliable information, enabling each participant to fulfil his/her responsibilities;
- to establish an organisation with clearly defined responsibilities, adequate resources and expertise, which relies on appropriate IT systems, operating procedures and methods, and appropriate tools and practices;
- to compile and analyse major identifiable risks in light of the Company's objectives and to ensure that procedures are implemented to manage these risks;
- to ensure that published financial statements and other information disclosed to the market is reliable.

One of the main objectives of the internal control system is to anticipate and manage the risks inherent to the Company's business and the risk of errors or fraud, particularly in the area of accounting and finance.

Internal control is an integral part of the Group's corporate governance strategy. In addition to the specialised committees described below, Faiveley Transport management has formed a Steering Committee that meets every month in order to thoroughly and consistently monitor the operational and financial performance of the railway business, to supplement the specialised committees referred to hereafter.

2.2. Internal control procedures and risk management

The objective of internal control is to ensure the prevention and management of risks arising from the operations of Group entities and the risk of errors or fraud, particularly of a financial and accounting nature. It seeks to ensure compliance with the law and applicable regulations, as well as the reliability of financial and accounting information.

The Group has established a structure, procedures and processes with the purpose of identifying, evaluating and reducing risks. The goal is also to allocate the resources necessary to manage risks, in line with the strategic and operational objectives of the Group.

As with all systems of internal control, it can offer reasonable assurance but cannot provide an absolute guarantee that these risks will be completely eliminated.

The internal control and risk management mechanisms in place within the Group are thus aimed at promoting:

- internal control in terms of the control environment: the Group's control environment is based on:
  - reference documents comprising, among other items, a body of rules summarised in a 'Corporate Manual' including the best practice rules for management, submission of tenders, quality procedures, human resource management, insurance and finance,
  - "Financial and Accounting Policies", a Group standardised benchmark document, covering accounting standards, accounting rules and practices, consolidation, reporting and cash management procedures;
- a clear internal organisation appropriate to the Group's business model;
- information systems adapted to the Group's business and organisation;
- identification of major Group risks (market, industrial and environmental risks);
- protection and monitoring activities: IT security, the implementation of corrective action plans by operational entities as part of continuous improvement;
- internal communication: the Group distributes relevant and reliable information mainly via the Group Intranet site. An internal newsletter is regularly distributed within the Group.

Moreover, in its control functions, the Supervisory Board now follows the principles set down by the new corporate governance code for listed companies, published by AFEP-MEDEF in December 2008 and updated in April 2010.

2.3. Implementation of internal controls

In order to meet objectives and to structure internal control activities, the Group has two types of procedures:

- operational procedures;
- internal control procedures relating to the preparation and processing of financial and accounting information.

2.3.1. CONTENT OF OPERATIONAL PROCEDURES

The principal standardised operating procedures are as follows:

- a "Corporate" manual whose major components concern:
  - management organisation, and the roles and responsibilities of their major duties,
  - key performance indicators,
  - key processes: "management reviews" and "projects reviews",
  - sales-related procedures,
  - financial procedures,
  - quality management,
  - health, safety and environmental procedures,
  - human resource procedures;
- compilation of "Quality" instructions describing certain common operational processes for the entire Group;
- an "Insurance" manual, which was redrafted after all Group policies for civil liability and damages were placed with the same broker;

- a collection of procedures and rules implemented by most Group subsidiaries as part of ISO certification. These rules relate to the management of production and purchasing.

2.3.2. INTERNAL CONTROL PROCEDURES IN RESPECT OF THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

Since 2006, the Company has been using a reporting and consolidation tool integrated into Hyperion. This constitutes a very significant improvement, both in terms of timing and quality of data production, and in terms of the evaluation of subsidiaries' performance and projects.

2.3.3. RISK MANAGEMENT TOOLS

In 2007, the Group started to work on the harmonisation and the gradual updating of all its technical and IT architecture. Standard IT tools (ERP) have been rolled out in operational units. The improvement in IT tools thus contributed to the structuring of internal controls and led in time to the achievement of gains in productivity.

The importance of the changes brought about currently requires close monitoring by the Group's management of the rollout of the base configuration.

The Group has already set up a framework of procedures to improve its internal controls, to harmonise practices within the Group and to optimise its operations.

The Group gives particular attention to the management of human resources, and has set up procedures to manage the remuneration of operational managers with the assignment of stated objectives and the measurement of their achievement, thus ensuring consistency in objectives and in the remuneration policy for managers throughout the entire Group.

Monthly reporting by subsidiaries is consolidated using a unique tool (Hyperion) under the responsibility of the Group's management control.

The Group has set up a number key performance and financial indicators to enable monitoring in a common language within the Group. The budgetary process is carried out with the participation of operational management and with strategic overviews decided by the Management Board. Budgetary reviews are carried out by the legal entity with the involvement of the Executive Committee.

A benchmark of key controls has been prepared, with the objective being to identify all the essential Group controls for processes considered critical by the Group's Management (Faiveley Management System). This includes dividing the business into key processes and sub-processes considered applicable to the entire business at a central and local level. This process, which was already in place within industrial management, was extended this year to financial and commercial processes.

Lastly, an approval process for tenders was set up at commercial and financial level to monitor the conditions under which the various product lines offer their equipment and services to customers.

2.4. Internal control and risk management procedures relating to the preparation and processing of accounting and financial information

Accounting and financial operations are carried out by the Finance Department for the parent company, subsidiaries and all entities.

This department is responsible for:
- supplying General Management, at any given time, with relevant documents and indicators to manage the company's operations;
- continually anticipating and contributing to the definition of action plans, their implementation and on-going monitoring with the company's General Management;
- ensuring the reliability of information supplied by the Company's accounting and financial information system.

The financial statements are drawn up according to:
- IFRS applicable to listed companies;
- rules laid down by Faiveley Transport, regarding the drafting of interim and annual financial statements for the parent company and subsidiaries.

As part of the changeover to IFRS within the Group, the Finance Department has introduced a number of accounting procedures and regulations which are part of the internal control framework and are covered by audits conducted by Group and local auditors.

The preparation of accounting and financial information is carried out within the Finance Department by the Consolidation Department, which summarises accounting data and produces the Group's consolidated financial statements.

It forwards a timetable of tasks and checks to be carried out for the end of each accounting period to plants and subsidiaries. The timetable also schedules the work of Statutory Auditors to ensure certification within an acceptable timeframe in order to allow for the approval of the financial statements.

The Group's Financial Controlling is implemented under the leadership of the Controlling Director. The financial controllers at head office supervise the monitoring and reporting of subsidiaries and projects in their area. They have the power to investigate and take action in conjunction with finance managers and controllers at subsidiaries.

Their work results in reports which provide a view of the accounting and financial position of subsidiaries and projects, of compliance with Group procedures and which define improvement plans to be carried out.

2.5. Internal control players

During the year ending 31 March 2012, the various internal control players operated as follows:

THE STEERING COMMITTEE

The Steering Committee includes the members of the Company's Management Board and certain members of the Supervisory Board. They meet monthly to evaluate operational and financial

performance, to discuss business matters and to define the strategic direction of the Group in its various businesses and in different markets, and each year, they supervise the preparation of the annual budget.

THE REMUNERATION COMMITTEE

The Remuneration Committee has three members. It is chaired by the Chairman of the Supervisory Board, Philippe Alfroid. François Faiveley and Christopher Spencer are also members.

The Remuneration Committee meets at least twice annually and its task is to determine the remuneration of General Management at the Faiveley Transport Group.

The Remuneration Committee deals specifically with the remuneration of senior executives; its task is to evaluate and confirm the allocation of the variable part of the remuneration of the Chairman of the Management Board of Faiveley Transport, based on individual performance objectives and on financial statements audited by the Statutory Auditors.

THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee has four members: Christian Germa (Chairman), Maurice Marchand-Tonel, Philippe Alfroid and Christopher Spencer. Serge Choumaker, a member of the Supervisory Board representing employee shareholders, is also involved due to his role as the Group's Director of Accounting & Consolidation. The operating principles of the Audit and Risk Committee are consistent with the findings of the Audit Committee's final report, published by the Financial Market Authority in July 2010.

Its specific task is to examine the interim and annual financial statements and the internal control procedures of Faiveley Transport Group.

In order to carry out this assignment, the Audit and Risk Committee interviews the Statutory Auditors and the Chief Financial Officer of the Group, it examines the scope of the consolidated companies, it consults external experts where necessary and proceeds with an examination of risks and of significant off-balance sheet commitments. In addition, it examines the Statutory Auditors' fees and the terms and conditions of their reappointment. It is also involved in the preparation of the Group's financial communication of the half-year and full-year financial statements and significant transactions (acquisitions, disposals, etc.).

The Audit and Risk Committee meets to approve the interim and year-end financial statements. It issues recommendations and prepares a report for the Supervisory Board of Faiveley Transport.

THE MANAGEMENT BOARD OF FAIVELEY TRANSPORT

The Board is responsible for the organisation and the implementation of accounting and financial internal controls, as well as the preparation of the financial statements prior to their approval.

The Management Board approves the financial statements and the Supervisory Board carries out the verification and checks that it deems necessary on the financial statements.

THE EXECUTIVE COMMITTEE

In addition to the Committees described above, there is an Executive Committee for the business, comprising the CEO, the Chief Financial Officer, and the heads of operational and cross-divisional departments. It deals with all matters concerning the operation and running of the Company and it meets once a month.

Depending on the agenda prepared at the previous meeting, non-members of the committee are invited to deal with matters within their area of responsibility.

THE FINANCE DEPARTMENT

Its role as regards internal control primarily consists of:
- financial controlling: monitoring the budgeting control processes;
- accounting and consolidation: monitoring the quality and reliability of subsidiaries' financial statements and of the consolidated financial statements;
- treasury: reliability of cash generation, delegation of authority, and management of exchange rate and interest rate risk;
- legal department: monitoring of contractual and insurance risk.

Financial controlling is undertaken by a team of controllers at the head office and in each subsidiary. The Finance Department organises periodic reviews to monitor industrial activities and business projects. Every month it issues a report for General Management and operational and cross-divisional departments.

INTERNAL CONTROL DEPARTMENT

In order to strengthen its internal control structure, Group Management decided to recruit a Director of Internal Control. The Director of Internal Control will be based at head office and will report directly to the Group's Chief Financial Officer. The aim of this role will be to support the implementation of internal controls through on-site audits to verify the application of Group procedures and key controls. To ensure transparency, all reports drafted during these audits will be passed on to the members of the Audit Committee and to the Group's CEO. A team made up of three to five "associate auditors", chosen from amongst more experienced Group personnel, will be created to support the Director of Internal Control in his missions.

THE DEPARTMENT HEADS' COMMITTEE

This is led by the CEO of each industrial subsidiary. It highlights Group indicators and deals with problems raised at previous meetings by reviewing the solutions implemented. It meets once a month.

THE QUALITY DEPARTMENT

The quality system is steered by a quality department within each industrial subsidiary and involves the senior management of each entity and subsidiary. It is subject to structured documentation which includes the description of processes as well as quality procedures.

The monitoring of the quality system is carried out by a steering committee for continuous improvement.

2.6. Monitoring of subsidiaries

Faiveley Transport has a majority or joint shareholding in each of its subsidiaries. Therefore, it has a strong presence on the Management Board and within the managerial structure of each of its subsidiaries.

A monthly management report is provided on D+3 then D+7 to the parent company by each subsidiary. The parent company then decides whether to take any appropriate action depending on the information received.

In November 2010, the Audit and Risk Committee requested an external audit of the Chinese companies F.M.T. Shanghai Ltd and Qingdao Faiveley SRI Rail Brake Co. Ltd. These audits were conducted by Deloitte's Shanghai office. The findings of these audits are discussed below (2.8 External Controls).

2.7. Standardisation of information technology systems

In spring 2007, Group Management decided to commit to a programme for the integration of IT systems for the whole Group.

A global "Moving Forward" programme was initiated to:
- reduce the complexity of the Group's organisation and to gain speed;
- standardise processes and better share information;
- create more added-value for the Group and its customers.

2.8. Third-party relationships

Supervision is carried out by independent certification agencies. The majority of the companies within the Group have ISO 9001-2000 certification and the Group quality management system is regularly audited by an external agency.

At 31 March 2012, more than ten Group entities, including the Group's main industrial sites were subject to ISO 14001 certification relating to environmental safety management systems.

Deloitte Shanghai conducted an audit at the end of 2010 of certain Chinese subsidiaries of the Group following a request by the Audit and Risk Committee. Its findings were shared with members of the Audit Committee on 16 December 2010. Based on this information, a number of corrective actions were initiated in early January 2011, in order to strengthen and/or implement new and more satisfactory controls. The implementation of these actions continued into 2011/2012.

Finally, it should be noted that the Group changed one of its auditors following a call for tenders carried out at the beginning of 2011: PricewaterhouseCoopers replaced Deloitte for the financial year beginning 1 April 2011. The scope of audit was changed since all international subsidiaries which were previously audited by various local audit firms or subsidiaries of international firms were granted to PricewaterhouseCoopers. Methods that are beneficial for the company in terms of control and validation of accounting and financial methods will naturally follow this appointment and the use of a single firm for all subsidiaries.

The auditors are PricewaterhouseCoopers Audit and Expertise Comptable et Audit (ECA). As part of their audit of annual and consolidated accounts of the company, the auditors are required to make recommendations regarding internal controls related to accounting and financial information. Accordance with their professional standards, the auditors communicate to the audit committee include the management and their assessment of internal control group. Corrective actions have already been incurred, for each subsidiary, the information provided by the auditors to the audit committee and the Group Management.

2.9. Shareholders information

All information on specific terms and conditions relating to shareholders' participation in general meetings is included in the Company's bylaws, in particular under Title V, Articles 26 and subsequent.

Please also note that items likely to have an impact in the event of a public offering, pursuant to Article L225-100-3 of the Commercial Code, appear in chapter 6 of the Company's Reference Document.

2.10. Action plan for the forthcoming financial year

The operational departments and the Finance Department of Faiveley Transport will continue to review key processes, business by business. The Finance Department will establish the new Internal Control Department, as described above. At year-end 2012, the auditors will conduct further reviews of internal controls in order to ensure that corrective actions taken as a result of their recommendations have been implemented.

Chairman of the Supervisory Board

STATUTORY AUDITORS' **REPORT**

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Prepared in accordance with Article L. 225-235 of the French Commercial Code, on the report prepared by the Chairman of the Supervisory Board

For the year ended 31 March 2012

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Faiveley Transport and in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-68 of the French Commercial Code for the year ended 31 March 2012.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by Article L. 225-68 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility :
- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and
- to attest that the report sets out the other information required by article L. 225-68 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

I. INFORMATION CONCERNING THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:
- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Supervisory Board report, prepared in accordance with Article L. 225-68 of the French Commercial Code.

II. OTHER INFORMATION

We attest that the Chairman's report sets out the other information required by Article L. 225-68 of the French Commercial Code.

Neuilly-sur-Seine and Dijon, 16 July 2012

The Statutory Auditors

PRICEWATERHOUSECOOPERS AUDIT	**EXPERTISE COMPTABLE ET AUDIT**
Philippe Vincent	Jérôme Burrier

DIRECTORS' **REMUNERATION**

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I. TABLE SUMMARISING THE REMUNERATION AND OPTIONS AND SHARES GRANTED TO EACH MANAGEMENT BOARD MEMBER

	2010/2011 FY	2011/2012 FY
Thierry Barel (1): Chairman of the Management Board and CEO		
Remuneration for the financial year	791,868	609,629
Value of free shares granted during the financial year	–	116,640
Value of performance-based shares granted during the financial year	156,051	–
TOTAL	**947,919**	**726,269**
Erwan Faiveley (2): Member of the Management Board		
Remuneration for the financial year	159,950	132,200
Value of free shares granted during the financial year	–	–
Value of performance-based shares granted during the financial year	–	–
TOTAL	**159,950**	**132,200**
Guillaume Bouhours (3): Member of the Management Board		
Remuneration for the financial year	–	351,339
Value of free shares granted during the financial year	–	46,656
Value of performance-based shares granted during the financial year	–	–
TOTAL	**–**	**397,995**
Robert Joyeux (1): Chairman of the Management Board and Chief Executive Officer (until 31 March 2011)		
Remuneration for the financial year	1,005,276	–
Value of free shares granted during the financial year	–	–
Value of performance-based shares granted during the financial year	–	–
TOTAL	**1,005,276**	**–**
Etienne Haumont (4): Member of the Management Board (until 1 September 2011)		
Remuneration for the financial year	806,208	–
Value of free shares granted during the financial year	–	–
Value of performance-based shares granted during the financial year	–	–
TOTAL	**806,208**	**–**

(1) Robert Joyeux retired and resigned from his position as Chairman of the Management Board on 31 March 2011.
Thierry Barel was appointed as Chairman of the Management Board and CEO on 1 April 2011.

(2) Erwan Faiveley is an employee of F.F.P., holding company of the Faiveley family.

(3) Etienne Haumont resigned from his position as Member of the Management Board on 1 September 2010 and gave up his position as Chief Financial Officer on 24 September 2010. A transaction of €516 thousand was agreed with Faiveley Transport on the termination of his employment contract on amicable terms. Etienne Haumont did not receive any special remuneration in his capacity as Member of the Management Board. No remuneration or compensation was paid to Etienne Haumont upon his leaving his position as Member of the Management Board of Faiveley Transport.

II. SUMMARY TABLE OF THE REMUNERATION OF EACH MANAGEMENT BOARD MEMBER

	2010/2011 FY		2011/2012 FY	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Thierry Barel, Chairman of the Management Board and CEO				
Fixed remuneration (gross before tax)	407,873	407,873	432,794	432,794
Variable remuneration (1) (gross before tax)	381,300	249,600	174,140	381,300
Benefits in kind (company car)	2,695	2,695	2,695	2,695
TOTAL	**791,868**	**660,168**	**609,629**	**816,789**
Erwan Faiveley, Member of the Management Board				
Fixed remuneration (gross before tax)	91,500	91,500	96,000	96,000
Variable remuneration (1) (gross before tax)	27,000	27,000	–	–
Benefits in kind (housing allowance)	41,450	41,450	36,200	36,200
TOTAL	**159,950**	**159,950**	**132,200**	**132,200**
Guillaume Bouhours, Member of the Management Board				
Fixed remuneration (gross before tax)	–	–	214,173	214,173
Variable remuneration (1) (gross before tax)	–	–	134,586	160,833
Benefits in kind (housing allowance)	–	–	2,580	2,580
TOTAL	**–**	**–**	**351,339**	**377,586**
Robert Joyeux, Chairman of the Management Board and CEO (until 31 March 2011)				
Fixed remuneration (gross before tax)	603,163	603,163	–	–
Variable remuneration (1) (gross before tax)	396,000	366,300	–	–
Benefits in kind (company car)	6,113	6,113	–	–
TOTAL	**1,005,276**	**975,576**	**–**	**–**
Etienne Haumont, Member of the Management Board (until 1 September 2010)				
Fixed remuneration (gross before tax)	137,053	137,053	–	–
Variable remuneration (1) (gross before tax)	150,840	150,840	–	–
Exceptional remuneration (gross before tax)	516,600	516,600	–	–
Benefits in kind (company car)	1,715	1,715	–	–
TOTAL	**806,208**	**806,208**	**–**	**–**

(1) The variable part is measured in relation to both Group and individual objectives. Group objectives are based on EBITDA and cash generation. Individual objectives are specified at the start of each financial year with line supervisors and are also presented to the Remuneration Committee in respect of Executive Committee members. A decision on the final vesting of the variable part of remuneration based on individual objectives (bonus) is reached following individual interviews and, as regards Group objectives, based on the audited financial statements. These recommendations are subsequently debated within the Remuneration Committee. The Chairman of the Remuneration Committee then presents a summary to the Supervisory Board.

(2) Erwan Faiveley is an employee of F.F.P, holding company of the Faiveley Family.

III. DIRECTORS' FEES AND OTHER REMUNERATION RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD

Members of the Supervisory Board	Amounts paid during the 2010/2011 financial year	Amounts paid during the 2011/2012 financial year
Philippe Alfroid		
Directors' fees	47,200	45,200
Other remuneration	–	–
François Faiveley		
Directors' fees	20,000	19,200
Other remuneration	–	–
Didier Alix		
Directors' fees	10,400	15,200
Other remuneration	–	–
Serge Choumaker		
Directors' fees	–	–
Other remuneration	–	–
Christian Germa		
Directors' fees	23,600	22,800
Other remuneration	–	–
Robert Joyeux		
Directors' fees	–	–
Other remuneration	–	–
Maurice Marchand-Tonel		
Directors' fees	17,200	16,400
Other remuneration	–	–
Christopher Spencer		
Directors' fees	18,400	17,600
Other remuneration	–	–
Edmond Ballerin (1)		
Directors' fees	2,000	2,000
Other remuneration	–	–
TOTAL	**138,800**	**138,400**

(1) The term of office of Edmond Ballerin as member of the Supervisory Board expired at the end of September 2011.

	Work contract		Supplementary pension plan		Compensation or benefits due or likely to be due as a result of termination or change of role		Non-competition compensation	
	Yes	No	Yes	No	Yes	No	Yes	No
Thierry Barel Chairman of the Management Board Start term of office: 01/04/2011		x(1)		x	x(3)			x
Erwan Faiveley Member of the Management Board Start term of office: 27/09/2005	x(2)			x		x		x
Guillaume Bouhours Member of the Management Board Start term of office: 01/04/2011	x					x		x

(1) Thierry Barel's work contract expired on 1 April 2011, date of his appointment as Chairman of the Management Board and Chief Executive Officer of the Company.

(2) Erwan Faiveley is an employee of F.F.P., holding company of the Faiveley family.

(3) Following the appointment of Thierry Barel as Chairman of the Management Board and Chief Financial Officer on 1 April 2011, the terms and conditions governing the termination of his duties have been defined. Thierry Barel will be entitled to compensation based on performance criteria, not exceeding eighteen months of total gross remuneration, in the event of his dismissal by the Supervisory Board.

IV. INFORMATION ON FREE SHARES ALLOCATED TO MANAGEMENT BOARD MEMBERS DURING THE YEAR

Name of Management Board members	Number and date of plan	Value of options, based on the method used in the consolidated financial statements	Number of free shares granted during the period	Vesting date	Date shares available
Thierry Barel	05/03/2012	29.16	4,000	05/03/2014	05/03/2016
Erwan Faiveley	Nil	Nil	Nil	Nil	Nil
Guillaume Bouhours	05/03/2012	29.16	1,600	05/03/2014	05/03/2016

V. HISTORY OF ALLOCATIONS OF SHARE SUBSCRIPTION OR PURCHASE OPTIONS AT 31 MARCH 2012

Information on share subscription or purchase options											
Date of General Meeting	27/09/05										22/09/09
Date of Management Board meeting	24/11/05	29/12/05	22/06/06	25/10/06	15/11/06	01/12/06	02/04/07	19/02/08	29/03/08	16/07/08	23/11/09
Total number of shares allocated	221,760	6,720	31,360	6,720	4,480	11,200	26,880	26,880	13,440	22,600	144,000
Number that may be purchased by Board members:											
• Thierry Barel	–	–	–	–	–	–	–	–	–	–	40,000
• Serge Choumaker	–	–	–	–	–	–	–	–	–	–	5,500
Date from which options can be exercised	24/11/07	29/12/07	22/06/08	25/10/08	15/11/08	01/12/08	02/04/09	19/02/10	29/03/10	17/07/10	23/11/13
Expiry date	23/11/12	28/12/12	21/06/13	24/10/13	14/11/13	30/11/13	01/04/14	18/02/15	28/03/15	16/07/15	23/11/17
Exercise price*	€26.79	€29.75	€30.48	€33.77	€34.13	€34.01	€42.80	€32.31	€34.08	€40.78	€54.91
Number of shares subscribed for at 31/03/2012	160,126	6,720	21,719	6,720	4,480	7,330	11,220	20,560	130	–	–
Number of options cancelled or expired	47,040	–	4,480	–	–	–	–	–	4,480	–	14,000
Options remaining at the end of the period	14,594	–	5,161	–	–	3,870	15,660	6,320	8,830	22,600	130,000

* The exercise price is equal to 95% of the average twenty trading days preceding the date of the Management Board meeting at which the options were granted.

VI. OPTIONS TO SUBSCRIBE FOR OR PURCHASE SHARES GRANTED TO THE 10 NON EXECUTIVE EMPLOYEES HOLDING THE HIGHEST NUMBER OF SHARES AND OPTIONS EXERCISED BY THESE AT 31 MARCH 2012

	Total number of options granted/ shares purchased	Weighted Average price	24/11/05	29/12/05	22/06/06	25/10/06	15/11/06	01/12/06	02/04/07	19/02/08	29/03/08	16/07/08	23/11/09
Options granted by the issuer and all companies in the scope of the option plans, to the 10 employees holding the highest number of options	285,980	38.03	67,200	6,720	31,360	6,720	4,480	11,200	26,880	26,880	13,440	22,600	68,500
Options held on the issuer and all companies included in the scope of the option plans and exercised by the 10 employees having purchased the highest number of options.	39,976	30.98	18,017	–	399	–	–	–	4,500	17,060	–	–	–

/03

OTHER INFORMATION

CERTIFICATE OF PERSONS **RESPONSIBLE FOR THE ANNUAL REPORT**

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"We confirm that, to our knowledge, the financial statements have been prepared pursuant to the applicable accounting standards and provide a true and fair view of the assets, financial position and profit of Faiveley Transport and all the companies included in the consolidation scope, and that the management report provides a fair presentation of the business trend, the results and the financial position of Faiveley Transport and all the companies included in the consolidation scope, as well as a description of the principal risks and uncertainties they face."

Thierry Barel
Chairman of the Management Board
Chief Executive Officer

Guillaume Bouhours
Member of the Management Board
Chief Financial Officer

STATUTORY
AUDITORS' FEES

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Article 222-8 of the General Regulations of the AMF (Autorité des Marchés Financiers)

Fees payable to the Statutory Auditors and members of their network within the framework of assignments relating to the closing of accounts at 31 March 2012 and 31 March 2011 were as follows:

	ECA		PWC	Deloitte
	2011/2012	2010/2011	2011/2012	2010/2011
Audit:				
Statutory Auditors, certification, review of individual and consolidated financial statements				
• Parent Company	152	173	200	206
• Subsidiaries	113	275	553	67
Other services directly related to the audit assignment	–	–	–	–
SUB-TOTAL AUDIT FEES	**265**	**448**	**753**	**273**
Other services:				
Legal, tax, corporate	–	–	–	–
Other	–	–	–	–
SUB-TOTAL OTHER SERVICES	**–**	**–**	**–**	
TOTAL	**265**	**448**	**753**	**273**

Design: Agence Aristophane

Limited liability company governed
by a Management Board and Supervisory Board
with share capital of €14,614,152
Immeuble Le Delage
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2012/2013 FINANCIAL REPORT

Faiveley
TRANSPORT

FINANCIAL REPORT

1. MANAGEMENT REPORT OF THE **MANAGEMENT BOARD**

To the Combined General Meeting of 12 september 2013

Ladies and gentlemen,

We have convened this General Meeting, in compliance with legal and regulatory requirements, to submit for your approval the Faiveley Transport annual and consolidated financial statements for the year ended 31 March 2013.

These financial statements have been prepared in accordance with Articles L. 232-1 and L. 233-16 of the Commercial Code.

The parent company and consolidated financial statements were approved by the Management Board on 31 May 2013, and were presented to the Supervisory Board and approved at their meeting of 31 May 2013.

This report has been compiled pursuant to Articles L. 232-1 paragraph 2 and L. 233-26 of the Commercial Code. It was made available to the shareholders prior to the General Meeting in accordance with legal and regulatory requirements.

The annual financial statements of Faiveley Transport and the consolidated financial statements have been compiled in accordance with legal and regulatory rules of presentation and valuation.

Highlights:

- To partly refinance the acquisition of US company Graham-White Manufacturing Co., completed on 3 February 2012, and diversify its financing sources, on 12 April 2012 the Group finalised its first private placement bond issue in the US with two institutional investors, for a total of US$75 million. This bond issue was made up of two tranches: one for US$30 million, with a 10-year final maturity and redeemable between 2017 and 2022, and a US$45 million bullet loan with a 10-year maturity. The average fixed interest is 4.91% per year.
- Faiveley Transport won its legal action against Wabtec in the United States. On 6 February 2013, the New York Court of Appeals upheld the jury's verdict against Wabtec, awarding the companies Faiveley Transport USA, Faiveley Transport Nordic, Faiveley Transport Amiens and Ellcon National US$15 million plus US$0.8 million in interest. This decision particularly punishes the trade secret misappropriation, acts of unfair competition and unjust enrichment relating to the manufacture of brake cylinders and actuators that make up brake systems.
- In accounting terms, the Wabtec accrued income was recorded in the balance sheet under "Other current assets" for an amount of €12.3 million (US$15.8 million). In the income statement, only the portion corresponding to damages for the period between 2007 and the end of March 2013 was recognised, *i.e.* €8.6 million (before expenses). The balance of €3.7 million, corresponding to damages for future periods, was recognised as a liability in the balance sheet under "Current liabilities". The total positive impact on the 2012/2013 operating profit was €6.2 million, after taking into account legal costs. This positive impact is composed of €1.7 million corresponding to the refund of costs incurred in the past and recognised under "other income", and €4.5 million corresponding to net damages recognised under gross profit.
- The Combined General Meeting of 14 September 2012 delegated authority to the Management Board to proceed with the allocation of free ordinary shares in the Company, either in existing shares or shares to be issued, within the limit of 1% of the share capital on the date of the General Meeting.

  As its meeting held on 24 October 2012, the Management Board decided to implement this delegation and to allocate 10,000 free performance-based shares to a beneficiary.

  At its meeting held on 3 December 2012, the Management Board also decided to implement this delegation and to allocate free shares. This decision was made as part of an employee shareholding plan aimed at a broader population of executives. The programme provides that an employee holding shares in the Company in a personal capacity will be granted two free shares for every share held, not exceeding a limit set for each level of management.

  At its meeting held on 15 January 2013, the Management Board established the final list of beneficiaries and the number of free shares to be granted. A total of 72,386 shares are thus to be granted to 179 beneficiaries. The allocation of the shares will be final at the end of a two-year vesting period, or four years for non-French residents.

  Thierry Barel and Guillaume Bouhours, both beneficiaries of free shares under this plan, are subject to an additional retention condition in their capacity as corporate officers. They must retain at least 50% of shares granted to them by the Management Board under this new plan after the end of the vesting period defined by plan regulations. This rule will apply as long as they do not hold shares of the Company, acquired in the various plans to grant stock options or free shares of the Company, worth at least the equivalent of one year's net salary.

1.1 GROUP OPERATIONS 2012/2013 AND CONSOLIDATED FINANCIAL STATEMENTS

In accordance with legal provisions, the financial statements of companies under direct or indirect control of Faiveley Transport were consolidated at 31 March 2013 with those of the parent company. The principles and conditions of this consolidation for the financial year 2012/2013, the related consolidation scope and the restatements undertaken in accordance with the accounting techniques of consolidation are presented in the notes to the consolidated financial statements.

1.1.1 CONSOLIDATION METHODS

The year ended 31 March 2013 had a normal duration of 12 months. The Group's functional and presentation currency is the Euro. Figures are expressed in thousands of Euros unless indicated otherwise.

1.1.2 CHANGE IN GROUP STRUCTURE

The financial year saw a merger between Faiveley Transport Ibérica SA (acquiring company) and Transequipos SA. For accounting and tax purposes, this merger is retroactive to 1 April 2012.

1.1.3 SUBSIDIARY OPERATIONS

↗ ANNUAL SALES

By region of delivery	2012/2013	2011/2012
Europe	563,225	544,978
Americas	155,368	106,263
Asia-Pacific	262,640	243,043
Rest of World	6,473	6,239
TOTAL GROUP	**987,706**	**900,523**

Faiveley Transport generated sales of €988 million for the full 2012/2013 financial year, an increase of 9.7% compared to the previous year. On a like-for-like basis, organic growth was 3.3%, in line with forecasts made at the beginning of the year. Over the year, the acquisition of Graham-White had a positive contribution of 4.5% and there was a positive foreign exchange effect of 1.9%.

On a like-for-like basis, this sales growth reflects the following developments by region:

- in Europe, organic sales growth was 3%, with a strong business activity in Italy, as well as an increase in project deliveries, especially in France, in the UK and in Benelux;
- sales in the Asia-Pacific region grew by 5%, primarily driven by the significant increase in project deliveries in Russia, as well as by growth in South-East Asia and India. Sales to China were virtually unchanged during the financial year;
- North and South America reported organic growth of 4%, thanks to the delivery of projects in the "Transit" segment, which offset the decline in the "Freight" segment.

The Services activity achieved an excellent year with sales growth of 22%, including organic growth of 9% and the contribution of the acquisition of Graham-White (primarily a Service business).

During the financial year, revenues from the original equipment business were stable on a like-for-like basis.

The growth experienced by the Group confirms both the strength and balance of its strategic business model, with a presence in all geographic regions and all market segments and a wide product range, both in original equipment and in services.

↗ SALES BY ACTIVITY

	2012/2013	2011/2012
Energy & Comfort	22%	19%
Brakes & Safety	20%	26%
Access & Information	17%	19%
Services	41%	36%

The Services activity achieved sales growth of 22% during the financial year, including organic growth of 9%, and now accounts for 41% of the Group's total sales. This significant increase reflects the success of sales initiatives aimed at expanding the Group's range of services, as well as buoyant Italian and French markets and the contribution of the recent acquisition of Graham-White (primarily a Services business).

Within original equipment operations, Energy & Comfort experienced a year of strong growth whilst the relative share of Brakes & Safety fell, due in particular to the slowdown in the American freight market and the fall in the number of locomotive deliveries in China.

1.1.4 CONSOLIDATED IFRS FINANCIAL STATEMENTS OF FAIVELEY TRANSPORT

1.1.4.1 Published financial statements

INCOME STATEMENT

	2012/2013	2011/2012
Sales	**987,706**	**900,523**
EBITDA[(1)] *% of sales*	127,454 *12.9%*	108,219 *12.0%*
Profit from recurring operations *% of sales*	112,299 *11.4%*	94,689 *10.5%*
Operating profit *% of sales*	**111,110** *11.2%*	**93,272** *10.4%*
Net finance cost	(13,628)	(15,185)
Income tax	(33,871)	(26,912)
Net profit from continuing operations *% of sales*	**63,611** *6.4%*	**51,175** *5.7%*
Net profit	**63,611**	**51,175**
Minority interests	(4,333)	(3,747)
GROUP SHARE OF NET PROFIT *% of sales*	**59,278** *6.0%*	**47,428** *5.3%*
Average number of shares[(2)]	14,232,102	14,012,090
Net earnings per share	**4.17**	**3.38**

(1) Operating profit + amortisation and depreciation.
(2) Excluding treasury shares.

Operating profit

Profit from recurring operations totalled €112.3 million, or 11.4% of sales.

After allocation of restructuring costs and net proceeds from the disposal of non-current assets, the Group's operating profit increased by 19% to €111.1 million, or 11.2% of sales, a year-on-year increase of 0.8 margin percentage point. Sales growth and strict control over sales, general and administrative costs led to this significant increase despite a decline in the gross margin rate. The main events of the financial year include the positive effect of the successful trial against Wabtec in the US (with a €6.2 million positive impact on operating profit out of a total net gain of €10 million) and a major loss provision booked on the RER Brussels project, due to technical difficulties in the development of sliding steps and on-board doors.

The various items making up operating profit may be analysed as follows:

	2012/2013	2011/2012
Sales	987,706	900,523
Gross profit	248,335	233,801
Administrative costs	(76,532)	(78,719)
Sales and marketing costs	(43,790)	(39,898)
R&D costs	(13,363)	(11,111)
Other income and expenses from recurring operations	(2,351)	(9,384)
Profit from recurring operations	**112,299**	**94,689**
Net expense from non-recurring operations	(1,189)	(1,417)
OPERATING PROFIT	**111,110**	**93,272**

RECOGNITION OF DAMAGES AND INTEREST AWARDED IN THE WABTEC TRIAL

Compensation of €8.6 million recognised in the income statement was €6.2 million after taking account of lawyers' fees incurred during the financial year. €4.5 million of this net income was recognised under "Gross Profit" (compensation for past damage) and €1.7 million in "Other income and expenses from recurring operations" (reimbursement of lawyers' fees incurred in previous financial years).

GROSS PROFIT

The Group's gross profit for the year ended 31 March 2013 totalled €248.3 million (25.1% of sales) compared to €233.8 million (26.0% of sales) for the year to 31 March 2012.

As in the first half of the year, an improved harmonisation in expense allocation between fixed costs and cost of sales accounted for a 0.2 percentage point decline in gross margin, with no impact on operating profit. Excluding this effect, the 0.7 percentage point decline in gross margin was primarily due to the ramp-up of the major new platforms incurring significant engineering costs and, for some of these platforms, technical development issues.

SALES, GENERAL AND ADMINISTRATIVE COSTS

Sales, general and administrative costs were €120.3 million in the 2012/2013 financial year, compared to €118.6 million in the previous year, which was a year-on-year increase of 1.4%.

These costs accounted for 12.2% of sales, compared to 13.2% at 31 March 2012.

On a constant consolidation scope (excluding the acquisition of Graham-White and the harmonisation of expense allocation) and foreign exchange rates, these costs decreased by 2.3% due to continuation of the cost cutting policy implemented by the Group since 2009/2010.

RESEARCH AND DEVELOPMENT COSTS

Research and Development costs are taken to the balance sheet if they meet the capitalisation criteria set by IAS 38. If not, they are recognised as expenses.

The Group's research and development costs that were recognised as expenses were €13.4 million (1.4% of sales) during the 2012/2013 financial year, compared to €11.1 million (1.2% of sales) for the year ended 31 March 2012.

OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses correspond to a net expense of €2.4 million during the financial year compared to a net expense of €9.4 million for the year ended 31 March 2012.

The reduction in this item during the financial year was primarily due to lower non-contract related provisions, as well as to the recognition of €1.7 million in compensation awarded in the Wabtec case (income that corresponds to the reimbursement of costs incurred in previous financial years).

PROFIT FROM RECURRING OPERATIONS

As a result, profit from recurring operations increased by 18.6% compared to the previous financial year. It totalled €112.3 million (11.4% of sales) compared to €94.7 million (10.5% of sales) the previous financial year.

NET EXPENSE FROM NON-RECURRING OPERATIONS

The majority of the net expense from non-recurring operations was due to restructuring costs and the net proceeds from the disposal of property, plant and equipment and intangible assets.

Restructuring costs amounted to €1 million during the period compared to €1.2 million the previous financial year. During the 2012/2013 financial year, these costs primarily related to the Chinese platform door subsidiary.

As at 31 March 2012, the loss on the disposal of non-current assets for the period was €0.2 million.

Consolidated net profit

The consolidated net profit was €63.6 million compared to €51.2 million the previous financial year, an increase of 24.3%.

Net profit was influenced by the following items:

NET FINANCE COST

Net finance cost improved to €13.6 million at 31 March 2013, compared to a net cost of €15.2 million at 31 March 2012. This charge is analysed as follows:

- the net cost of financial debt for the year, which totalled €10.6 million compared to €10.7 million the previous financial year. The sharp fall in market rates combined with improved hedging offset the additional interest burden related to the debt incurred to acquire Graham-White;
- financial instruments resulted in a net negative impact of €1.4 million;
- a favourable impact on the realised and unrealised exchange adjustments for €1.1 million;
- other financial income and expenses resulting in a net negative impact of €2.8 million, comprising interest on bank guarantees, interest on pension commitments, the effects of the reversal of discounting the value of minority shareholder put options and other financial income and expenses.

INCOME TAX

Income tax was €33.9 million compared to €26.9 million for the year to 31 March 2012. This rise was due to the increase in profit before tax from €78 million for the year to 31 March 2012 to €97.5 million for the year to 31 March 2013. As a percentage, the effective tax rate was 34.7% for the year compared to 34.4% for the previous year. This increase is analysed as follows:

- the poor results recorded by the Chinese subsidiaries, in particular by the two platform door subsidiaries, FTMT Shanghai and Faiveley Transport Far East, which benefit from a reduced tax rate;
- for the French subsidiaries, the tax law no longer allows a 100% deduction of financial charges but now rather an 85% deduction, a new 3% tax on dividends has been introduced and the relative significance of the CVAE charge, which has been recognised as income tax since the 2010/2011 financial year, increased with similar amounts in both years (approximately €2 million).

The income tax rate paid was 30.3%, compared with 38.1% for the year to 31 March 2012.

NET PROFIT FROM DISCONTINUED OPERATIONS

Nil.

MINORITY INTERESTS

Minority interests comprise shares held by minority shareholders in Shanghai Faiveley Railway Technology (51%-owned), Faiveley Transport Schweiz AG (80%-owned), Nowe GmbH (75%-owned) and Amsted Rail-Faiveley LLC (67.5%-owned).

Group share of net profit

Taking the above-mentioned items into account, the Group's consolidated net profit for the year increased by 25% to €59.3 million, compared to €47.4 million the previous year.

Net earnings per share was €4.17 compared to €3.38 for the year to 31 March 2012, an increase of 23%. Net earnings per share is calculated after deducting treasury shares held by Faiveley Transport at the end of the financial year, *i.e.* 382,050 shares at 31 March 2013 and 427,528 shares at 31 March 2012.

SUMMARISED BALANCE SHEET

	2012/2013	2011/2012
Goodwill	651,235	648,981
Net non-current assets	120,260	114,752
Deferred tax assets	44,816	43,598
Current assets	482,715	457,151
Cash and cash equivalents	174,958	210,247
TOTAL ASSETS	**1,473,984**	**1,474,729**
Equity	559,860	505,145
Current and non-current provisions	116,918	116,566
Deferred tax assets	28,271	22,090
Current and non-current financial debt	377,441	448,285
Current liabilities	391,494	382,643
TOTAL EQUITY AND LIABILITIES	**1,473,984**	**1,474,729**

Goodwill

Goodwill increased by €2 million, from €649 million at 31 March 2012 to €651 million at 31 March 2013.

This change was primarily due to:

- the €0.5 million (US$0.6 million) adjustment of Graham-White's acquisition goodwill during the allocation period;
- the translation adjustments of the Ellcon National, Amsted Rail and Graham-White Manufacturing Co. goodwill (assessed in US$) totalling €4.6 million;

- the downward adjustment of Nowe GmbH's acquisition goodwill totalling €2.8 million, following the discounting of the put option held by minority shareholders.

Net non-current assets

Net non-current assets increased from €114.8 million at 31 March 2012 to €120.3 million at 31 March 2013, an increase of €5.5 million.

The constituents of non-current assets are detailed in the Notes E.2, E.3 and E.4, respectively, to the consolidated financial statements.

Working capital requirements (WCR)

	2012/2013	2011/2012
Inventories	144,453	144,000
Work-in-progress on projects	98,524	91,048
Advances and prepayments paid	3,893	3,811
Trade receivables	184,193	179,402
Other current assets	42,304	29,563
Advances and prepayments received	(120,860)	(124,674)
Current liabilities	(270,634)	(257,969)
WORKING CAPITAL REQUIREMENTS	**81,873**	**65,181**

At 31 March 2013, the net WCR[(1)] was €81.9 million, an increase of €16.7 million compared to 31 March 2012. This change was primarily due to an increase in work-in-progress on projects (up €7.5 million) following the launch or continuation of the engineering phase of numerous projects, a €4.4 million increase in trade receivables, a €12.7 million increase in trade payables, a €3.8 million decline in customer advances and the recognition of accrued income related to the compensation from the Wabtec legal action under other assets, totalling €12 million.

Cash and cash equivalents

	2012/2013	2011/2012
Short-term investments	22,035	41,080
Factoring (uncalled cash)	46,875	50,205
Banks (available cash)	105,925	118,817
Cash	133	144
TOTAL CASH AND CASH EQUIVALENTS	**174,958**	**210,246**

The programme to sell receivables under non-recourse agreements totalled €92.8 million at 31 March 2013, the same level as the previous year. This included €48.1 million from factoring (€46,9 million net of holdbacks) and €44.7 million from the sale of receivables.

Equity

Equity amounted to €559.9 million at 31 March 2013, compared to €505.1 million at 31 March 2012, an increase of €54.8 million.

This movement is primarily due to the impact of:

- the net profit for the year: €63.6 million;
- the payment of a cash dividend to shareholders of the parent company and other minority shareholders: €(15.4) million;
- the movement in translation differences: €4.3 million.

Current and non-current provisions

At 31 March 2013, current and non-current provisions totalled €116.9 million, compared to €116.6 million at 31 March 2012, a net increase of €0.3 million.

The various items comprising this movement may be analysed as follows:

- €5.2 million increase in provisions on contracts;
- €2.3 million decrease in provisions for pension commitments;
- €1 million decrease in provisions for restructuring;
- €1.6 million decrease in other provisions for risks and charges.

Net financial debt

Net financial debt, as defined in Chapter 3.3.6 Note E.13.4 to the consolidated financial statements, decreased by €36.8 million, from €213.4 million at 31 March 2012 to €176.5 million at 31 March 2013.

This change was due to:

- a €72.3 million decrease in financial debt;
- a €35.3 million decrease in cash and cash equivalents;
- a €0.2 million decrease in financial receivables.

From a financial point of view, this decrease in net financial debt during the year was due to the strong level of cash generation, with a free cash flow of €49 million during the 2012/2013 financial year.

As a result, the Group's financial structure strengthened during the year:

- the net debt to EBITDA ratio was 1.47 at 31 March 2013 compared to 1.77 at 31 March 2012;
- the net debt to equity ratio (gearing ratio) was 31.5% at 31 March 2013, compared to 42.2% at 31 March 2012.

From a financial point of view, Group equity includes treasury shares, which are held for transfer as part of the share purchase or subscription option plans. The exercise of share options (179,996 at the end of March 2013) would result in an increase of €8.9 million in Group cash and cash equivalents. The value of treasury shares not allocated to stock option plans amounted to €5.9 million at the 31 March 2013 share price (including treasury shares held as part of the liquidity contract). The total value of treasury shares therefore came to €14.9 million, compared to €17.5 million at 31 March 2012.

(1) Calculated based on net balance sheet values, on a current basis and after deducting losses on completion up to the value of projects in progress. The WCR used in the cash flow statement presented in the consolidated financial statements has been calculated excluding changes in the consolidation scope, movements in foreign exchange and before provisions for losses on completion deducted from the asset.

CASH FLOW STATEMENT

	2012/2013	2011/2012
Net profit	**63,611**	**51,175**
+ Movements in amortisation, depreciation and provision charges and other	27,929	19,997
Self-financing capacity	**91,540**	**71,172**
+ Changes in WCR	(19,929)	(4,030)
Net cash from operating activities	**71,611**	**67,142**
Purchase of PPE and intangible assets	(20,426)	(16,920)
Movement in other financial assets	264	204
Net cash from (used in) acquisitions/sales of subsidiaries and minority interests	-	(77,608)
Net cash used in investment activities	**(20,162)**	**(94,324)**
Proceeds from issue of share capital	-	-
Sale (purchase) of treasury shares	523	932
Change in share issue and merger premium	-	-
Other equity movements	163	(1,936)
Cash dividends paid	(15,381)	(18,094)
Movement in borrowings	(78,218)	57,707
Net cash from (used in) financing activities	**(92,913)**	**38,609**
Net foreign exchange difference	(3,060)	1,169
Impact of increase/(decrease) in value of cash equivalents	3,614	1,516
Cash and cash equivalents at start of period	**206,823**	**192,711**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**165,913**	**206,823**

Self-financing capacity

At 31 March 2013, self-financing capacity was €91.5 million, a significant increase of 28.6% compared to the year-end at 31 March 2012 (€71.2 million).

This change was due to the increase in 2012/2013 net profit, *i.e.* €63.6 million, compared to €51.2 million in the previous year, offset by a €6 million increase in deferred tax. Amortisation and provision charges increased by €1.4 million during the year and the cost of share-based payments rose by €0.5 million.

Net cash from operating activities

Cash flow from operating activities rose by €4.5 million over the financial year, to €71.6 million. This increase is a result of a €20.4 million improvement in self-financing capacity, offset by the €15.9 million change in working capital requirements.

The change in working capital requirements was primarily impacted by the accrued compensation income following the successful legal action against Wabtec, recognised for an amount of €12.3 million under other current assets.

Apart from this effect, the operating working capital requirement increased slightly, up €7.6 million, primarily due to:

- the €7.5 million increase in work-in-progress on projects due to the launch or continuation of the engineering phase of numerous contracts secured on new train platforms over the last three years;
- the €4.4 million increase in trade receivables;
- the €12.7 million increase in trade payables;
- the €3.8 million reduction in customer advances.

Net cash used in investment activities

Investments in property, plant and equipment and intangible assets increased by €3.5 million during the year. Financial investments were stable compared to the previous year (€0.2 million).

Net cash from (used in) financing activities

The Faiveley Transport Group distributed cash dividends of €15.4 million, compared to €18.1 million in the previous year. In addition, stock options valued at €0.5 million were exercised during the year.

The change in borrowings was primarily due to the annual repayment of €34 million on the syndicated loan signed in December 2008 and reduced drawdowns on short-term credit facilities over the latter part of the 2012/2013 financial year.

1.1.4.2 Research and Development

The majority of the research and development conducted within the Group falls within the engineering included in contracts and is recognised as cost of sales.

In application of IFRS standards, €2.7 million in development costs was capitalised during 2012/2013, compared to €2.9 million in the previous year. The amortisation charge was €2.2 million for the year to 31 March 2013, compared to €1.9 million for the year to 31 March 2012.

At 31 March 2013, the total development costs recognised in balance sheet assets were €10.4 million, compared to €9.5 million at 31 March 2012. Development costs are amortised over 3 years.

1.1.4.3 Business developments since year-end

POST-BALANCE SHEET EVENTS

On 17 May 2013, Faiveley Transport acquired 100% of Schwab Verkehrstechnik AG, a leading designer and manufacturer of couplers and buffers for freight and rail transit markets. This company, which reported sales of CHF 23 million in 2012, is based in Schaffhausen (Switzerland) and has 42 employees.

2013/2014 OUTLOOK

Order book at 31 March 2013

The Group posted an order book of €1,616 million at 31 March 2013, reflecting a decline of 4.4% compared to 31 March 2012, down 5.2% on a like-for-like basis.

Enterprise Resource Planning System (ERP)

The basic configuration has been implemented at three pilot sites (Leipzig, Plzen and Gennevilliers). Following a stabilisation phase, a standardised version will be deployed throughout the Group, starting in 2013/2014.

Outlook

The Group expects organic growth between 0% and 3% for the 2013/14 financial year, with the following sales outlook by region:

- Europe should achieve moderate growth, particularly due to the start of serial production deliveries of certain major projects awarded to the Group over the last few years;
- Asia-Pacific sales should be broadly stable, with an acceleration of locomotive deliveries in China that should offset the decline in the Group's metro projects in this country. In Russia, the level of activity should be consolidated after two years of very strong growth. India is targeting significant sales growth due to the delivery of metro equipment;
- in North America, the freight market is expected at approximately 35,000 cars per year, in line with the level of business activity noted in the past few months. Against this backdrop, the Group will seek to pursue its development initiatives, particularly in the locomotive and service segments.

1.1.4.4 Cash and capital

SHARE CAPITAL OF FAIVELEY TRANSPORT

See chapter 1.3 Information on the share capital.

FINANCING CONDITIONS

a) Loans

SHORT-TERM BANK FINANCING

During the first half of the year, a new €25 million revolving facility was negotiated to meet the Group's general requirements. This facility was secured for a period of one year and was renewed in April 2013.

NON-BANK FINANCING

To partly refinance the acquisition of US company Graham-White Manufacturing Co. and diversify its financing sources, on 12 April 2012 the Group launched its first private placement bond issue in the US with two institutional investors, for a total of US$ 75 million, made up of two tranches:

- a first tranche of US$ 30 million with a 10-year final maturity, redeemable between 2017 and 2022;
- a second tranche of US$ 45 million of bullet loan with a 10-year maturity.

The average fixed rate is 4.91% per year.

FINANCIAL CONDITIONS

The above financing facilities are subject to a number of financial conditions, including three main ones:

- leverage ratio, which refers to Consolidated Net Debt/Consolidated EBITDA over a 12-month moving average to the end of each half-year accounting period, must not exceed 2.5.

  At 31 March 2013, the ratio was 1.47;
- gearing ratio, which refers to Consolidated Net Debt/Consolidated Equity, must not exceed 1.5 at the end of each half-year accounting period.

  At 31 March 2013, the ratio was 0.31;
- the "Consolidated EBITDA/Net Cost of Consolidated Financial Debt" ratio, which must not fall below 3.5 at the end of each half-year accounting period.

  At 31 March 2013, this ratio was 11.6.

b) Analysis of Faiveley Transport Group net debt

At 31 March 2012, Group debt was €213.4 million, comprising financial debt taken out from banks and two institutional investors totalling €433.5 million, offset by financial receivables of €9.9 million and cash and cash equivalents of €210.2 million (including short-term investments of €41 million and cash of €169.2 million).

At 31 March 2013, Group debt was €176.5 million, comprising financial debt taken out from banks totalling €361.2 million, offset by financial receivables of €9.7 million and cash and cash equivalents of €174.9 million (including short-term investments of €22 million and cash of €152.9 million).

Cash of €152.9 million included €46.9 million of uncalled factoring and €106 million of available cash.

It should be noted that Faiveley Transport holds 382,050 treasury shares that are designated, in their majority, to be purchased by managers within the share purchase or subscription option plans or to be allocated to managers who benefit from the free share allocation plans.

These shares are currently deducted from equity. The exercise of these stock options (179,996 at the end of March 2013) would result in a cash inflow for the Group of €8.9 million. Unallocated treasury shares were valued at €5.9 million at the 31 March 2013 stock market price (including treasury shares held as part of the liquidity contract).

RESTRICTIONS ON THE USE OF CAPITAL

The debt documentation includes limitations in terms of:

- lease finance;
- disposal of receivables;
- various financing;
- overdraft pursuant to a cash pooling agreement;
- seller loan;
- bank guarantees on long-term contracts.

FINANCING OF OPERATIONS AND EXPECTED SOURCES

Cash flow generation and available finance currently cover the Group's recurring capital expenditure requirements.

The recent financing transactions ensure the availability of medium-term resources.

Euro-denominated amortisable repayments are funded by cash flow generated outside the US, and the US dollar repayments by cash flow generated by the American subsidiaries, with the bullet portion due in June 2016 to be refinanced when required.

The conditions for the early repayment of Group debt notably include the loss of the majority control of voting rights by the Faiveley Family and failure to comply with financial ratios.

1.1.5 RISK FACTORS

1.1.5.1 Market risks relating to Group operations

The Group's long-term operations depend on multiple factors such as global economic growth, public policy relating to public transport as well as the price of raw materials.

Government measures to control public spending that are related to the high level of debt of certain states could result in a reduction in public investment in the rail transport market, with the risk of a heightened tax burden at a local level.

The Group also faces strong competition from both its traditional rivals and new contenders from emerging countries, particularly Asian, which benefit from cheaper labour. The impact of this increased competition could have an effect on the prices, payment terms, lead times and performance expected by the customer. Faiveley Transport has adjusted its industrial strategy in line with this new landscape and has adapted its product range to better meet its customers' expectations.

The Group remains competitive in most markets and considers that its order book, as well as all the measures taken, in particular its cost cutting plans and its plans to adapt the workforce to meet changing demand and its geographical coverage, should enable it to remain profitable and to withstand the competition.

CONTRACT EXECUTION RISK

Faiveley Transport's activity involves the signing of complex contracts where obligations regarding the reliability, safety and durability of equipment can have a relatively lengthy lifespan, linked to the life of the train or the metro which they are equipping. Risks related to the development of new technologies must be taken into account along with those linked to the obsolescence of components.

Sales and the profitability of projects depend on elements that sometimes fall outside the Group's control, such as the occurrence of unforeseen technical problems relating to the equipment provided, deferrals or delays in the execution of contracts, and financial difficulties faced by customers or suppliers. Profit margins on projects may also differ from those originally envisaged insofar as the costs and the productivity expected may vary during the execution of the contract. Accordingly, the profitability of certain contracts may significantly affect the Group's results and cash flow over a given period. Although these cases remain highly unusual, Faiveley Transport could be faced with bank guarantees payable on first demand from its customers for potentially large sums.

The Group has implemented strict risk control procedures that apply from the submission of the bid through to the performance phase of contracts. These risk control rules and procedures are formalised in the Group's Internal Control Manual.

Faiveley Transport cannot however guarantee that all these measures will be sufficient. Certain contracts may be subject to additional costs, delays or poor technical performance leading to the payment of penalties or compensation. Such difficulties may have a negative effect on the Group's results and financial position.

During the 2012/2013 financial year, the Group faced technical development problems relating to certain new train platform contracts secured over the previous three years. These problems led to substantial provisions, in particular on the RER Brussels contract for on-board doors.

SUPPLIER RISK

The organisation and management of quality, the selection and monitoring of suppliers and subcontractors, the follow up of complaints and the contractual environment are adapted to the nature of potential risks.

As regards suppliers, a selection process is in place that includes, in addition to the criteria of financial stability, a selection audit by the subsidiary's supplier Quality Department and a follow-up of performance. Every return or rejected component leads to the setting up of a working group dedicated to resolving the issue, in order to analyse the causes and make a decision as to changes to be made to prevent the same problem from reoccurring.

The production series are short. Orders for supply of raw materials and components are carried out by project. The most unfavourable case would thus be a design error impacting an entire project. This may represent several thousand parts. The nature of the fault can be rapidly understood due to the expertise of the teams who can recommend the relevant technical solutions.

As part of its business, the major operating entities of the Group may be confronted with a state of dependence on certain suppliers and/or subcontractors for certain components, or with certain suppliers or subcontractors being dependent on the Group.

The implementation of best purchasing practices and the management of purchases by type of commodity and by supplier enables us to accurately assess these risks of dependence and take the necessary steps.

Increased monitoring, due to the international economic crisis, was put into place in order to pre-empt the financial failure of any major supplier.

RISK RELATED TO THE DEVELOPMENT OF NEW PRODUCTS

Faiveley Transport designs and develops products with high-added technological value. The Group has to develop, within increasingly short time frames, new products that are both sophisticated and complex. The products must be adapted to any new regulatory standards within their markets. The time available for testing is steadily decreasing, whilst the risks may increase. It is sometimes necessary to modify products during the manufacturing process or when customers begin operating them.

Design and development are carried out as part of a customer project or in-house R&D programmes initiated by the Group. For each development project, a formal plan is prepared, split into fundamental tasks, implemented and updated by the project manager and project coordinators. The features taken into account at the start of the project are functional and performance requirements, regulatory and legal requirements where applicable, information from previous similar designs and all other requirements necessary for design and development. Project reviews are carried out and reports produced. The verification of the designs comprises execution of calculations, the completion of FMEA (Failure Mode Effects Analysis) as well as verification of the plans.

The internal validation of the design is carried out by test laboratories for the prototype stage on the basis of a formalised validation plan. Prototypes are validated by the customer through an FAI (First Article Inspection).

Every new order for parts is subject to a material check, dimension check, verification of compliance with legal and regulatory requirements and an environmental analysis.

The products carry an identification plate showing an identification number and serial number, enabling the date of construction to be found and the trial notes with the name of the related operator. The serial number of devices comprising a sub-assembly is identified from these notes. Small parts are traced by production batch.

Given the degree of technology involved in certain products, Faiveley Transport cannot guarantee that it will not encounter fresh problems or delays, despite the technical validation process introduced within the Group.

When issues arise, there is no guarantee that the total final costs will be absorbed by the amounts provided for, with a potential negative effect on the Group's financial performance and financial position.

Warranty provisions are calculated based on a specific percentage for each product manufactured and the reliability experienced over time. Percentages vary between 1% and 6% depending on products and are applied to sales achieved, project by project.

At 31 March 2013, the warranty provisions totalled €44.9 million.

The amounts provided in respect of the warranty and Customer Services, as well as litigation declared by customers and penalties payable are disclosed in the notes to the consolidated financial statements (Note E.12.3).

1.1.5.2 Financial risks and market risks

As part of its business, the Faiveley Transport Group is exposed to various types of market risks, in particular foreign exchange, interest rate, raw material, credit and liquidity risks. A description of these risks is provided below and additional information is disclosed in Note E.14 to the consolidated financial statements.

The Group's management of foreign exchange, interest rate and raw material risks seeks to minimise the potentially unfavourable effects of the financial markets on the Group's operating performance.

The Group uses derivative financial instruments to cover its exposure to fluctuations in foreign currency exchange rates. As part of its hedging policy, the Group may use currency swaps, forward hedges, exchange rate options and structured products.

The Group covers its exposure to interest rate risk by the use of swaps and options.

The Group hedges its raw material exposure through raw material swap contracts.

The Group does not use derivatives for speculative purposes.

EXCHANGE RISK

The main currencies concerned are the US Dollar, Hong Kong Dollar, Czech Koruna, Swedish Krona, Pound Sterling and Chinese Yuan.

The management of the exchange risk of commercial contracts, where permitted by regulatory requirements, is centralised by the Group Treasury Department and comprises two parts: the certain and the uncertain risk.

- Exchange risk management relating to tenders in foreign currencies (uncertain risk):

  The Faiveley Transport Group is required to submit tenders denominated in foreign currencies. The Group's hedging policy is not to put into place hedge instruments during the offer phase, unless when specifically decided by Management. The aim is to manage the exchange risk through normal commercially available means. If necessary, the Group Treasury Department uses mainly exchange options.

- Exchange risk management relating to commercial contracts (certain risk):

  Commercial contracts in foreign currencies (most often successful tenders) are hedged by the Group Treasury Department from contractual commitment with derivative instruments. Instruments used mainly include forward purchases and sales and exchange swaps. Group Treasury may also use options.

Information concerning derivative financial instruments currently in place to hedge the exposure to exchange risks for future purchases and sales is disclosed in the notes to the consolidated financial statements (Note E.14 – Financial instruments and financial risk management).

The Group's policy is to systematically hedge against currencies, except for certain very long-term contracts and certain currencies, which are faced with the technical limitations of hedging or prohibitive cost.

Recurring commercial exposure, excluding the subsidiaries' projects are hedged by Group Treasury based on an annual budgetary approach and through forward purchase or sale contracts.

The Group's exposure resulting from all its commercial contracts is detailed in the consolidated financial statements (Note E.14.4).

Intra-Group financing contracts are hedged by Treasury through exchange swap contracts.

Impacts on the income statement due to variations in the Euro (+/-10%) against major foreign currencies and on items not hedged against and recorded at 31 March 2013 are presented in the consolidated financial statements (Note E.14.4).

INTEREST RATE RISK

The interest rate risk to which the Group is exposed is mainly due to long-term loans amounting to €361.2 million at 31 March 2013 (see details in the consolidated financial statements, Note E.13), of which €292.6 million related to the syndicated debt.

The syndicated debt, excluding the revolving facility, is indexed on variable USD Euribor and Libor interest rates and can be hedged in accordance with the Group's interest rate risk policy. All revolving facilities, drawn or undrawn, bear a variable rate and are not subject to interest hedges. The same applies to the US private placement bond issue, which bears a fixed rate.

To manage this risk, the Treasury Department has implemented a hedging strategy using interest rate swaps, tunnels, caps and options.

The exposure to Euro interest rates is covered for between 77% and 83% of the total debt drawn down based on interest rate fluctuations for the 2013/2014 period.

The syndicated debt denominated in US dollars is no longer being hedged. However, taking into account the "US private placement" bond issue, exposure to interest rate changes is limited to 26% of the debt for the period 2013/2014.

The estimated cost of syndicated debt in 2013/2014 is 1.94%, including hedges and spreads for the debt in Euros. For the debt in US dollars, which includes the US Private Placement, the estimated cost is 3.87%. The total cost of the Group's debt for 2013/2014 is therefore estimated at 2.5%.

At 31 March 2013, outstanding Euro-denominated syndicated debt was €267.4 million, with corresponding interest rate hedges for €192.5 million of this. The amount of the US dollar-syndicated debt was US$32.1 million.

Net exposure and the sensitivity analysis are described in the notes to the consolidated financial statements (Note E.14.4.b Interest rate risk).

RAW MATERIAL RISK

The Faiveley Transport Group is exposed to increases in the cost of raw materials such as steel, cast iron, copper, aluminium and rubber, as well as to increases in transportation costs.

The Group has already anticipated these effects, both in the preparation of its tenders and in terms of its purchasing policy:

- certain contracts relating to projects include price indexation mechanisms that enable the Group to absorb a large part of the increases in raw material costs;
- the vulnerability of raw material purchases is taken into account when developing the purchasing budgets. These price changes are subject to rigorous control throughout the year by purchasing teams to limit their impact.

This information is disclosed in the notes to the consolidated financial statements (Note E.14.4.c).

CREDIT RISK

The Group enters into commercial relationships with third parties whose financial position is known to be healthy. The Group's policy is to verify the financial health of those customers wishing to obtain credit.

In the case of derivative instruments and cash transactions, counterparties are limited to the high-quality financial institutions that currently finance the Group.

The Group also practices debt factoring and the sale of receivables. Details of this are provided in the notes to the consolidated financial statements (Notes E.8 Current receivables and E.14.5 Credit risk).

LIQUIDITY RISK

The Company carried out a specific review of its liquidity risk and considers that it is in a position to meet its maturities.

The Group's Finance Department monitors all of the Group's liquidity in order to honour its financial commitments by maintaining a sufficient level of cash and financing facilities.

To partly refinance the acquisition of US company Graham-White Manufacturing Co. and diversify its financing sources, in the first half of the financial year, the Group was granted US$75 million *via* a private placement in the US.

In addition, a new €25 million credit facility with a one-year maturity was negotiated at the start of the financial year and renewed at the start of 2013/2014.

This debt is subject to a number of financial ratios. At 31 March 2013, the Group complied with all required ratios. The details of these covenants are commented in the notes to the consolidated financial statements (Note E.13 – Borrowings and financial debt).

Note E.14.6 to the consolidated financial statements provides additional information of the cash and cash equivalents position at 31 March 2013.

The Group had the following cash and cash equivalents at 31 March 2013:

	31 March 2013
Available credit lines (a)	145,244
Parent company cash (b)	(4,746)
Subsidiaries' cash and cash equivalents (c)	178,500
AVAILABLE CASH AND CASH EQUIVALENTS (1) = (a+b+c)	**318,998**
Financial liabilities due in less than one year (d)	37,311
Available credit lines maturing in less than one year and bank overdrafts (e)	106,928
NET CASH AND CASH EQUIVALENTS AVAILABLE DURING THE NEXT YEAR (1-d-e)	**174,759**

The "table of future cash flows", presented in the consolidated financial statements (Note E.14.6.b) provides a breakdown of future liabilities by maturity.

SHARE RISK

The Group does not hold a share portfolio but deposits excess cash balances. At 31 March 2013, it had certificates of deposits of €8.2 million, and fixed-term deposits of €13.8 million.

The risk of these instruments is deemed low.

1.1.5.3 Legal risks

This section provides a limited overview of the various forms of legal risks arising from the Group's operations and the execution of its contractual requirements. The Group considers that sufficient provision charges have been recognised to date to cover all risks and disputes.

When Faiveley Transport sells its products or signs sales contracts with the associated maintenance, it may be required to accept binding penalty clauses related in particular to delays, performance, availability of materials as well as relatively lengthy guarantee and obsolescence clauses. These contracts sometimes contain clauses enabling the customer to terminate the contract or return the product if performance requirements or delivery schedules are not met. These clauses, as well as the development, design and manufacturing of new products phase, can, in the event of problems, result in unforeseen costs related particularly to the application of penalties for delay and product modification as well as claims and disputes with the customers concerned.

RISK OF NON-CONFORMITY

The Faiveley Transport Group may be confronted by the usual risks encountered by all industrialists that produce and sell manufactured products, which entail liability for faulty products.

A Group subsidiary may be held liable by another professional (car builder, operator and maintenance) in the event of non-conformity of products delivered or non-compliance by the seller of contractual commitments in terms of timescale, reliability, life, etc. Guarantees concerning the proper operation of products delivered are granted for longer or shorter periods (between 12 or 36 months on average) according to the demands of the final customer, the type of project and its specific features. The risk related to this contractual guarantee is evaluated upstream and included in the price of the product.

Product risk is identified very early on, due to the understanding and technical feasibility study of the project by a specialised and dedicated team within the design office, as well as the selection of dual source suppliers to avoid any sudden interruption in the delivery of components or materials.

In order to limit the risk of non-conformity, the Group also uses the contractual technique that restricts certain types of damages between professionals, and even eliminates some of them (loss of profit, damage to image, loss of customer base or sales).

In addition, the Faiveley Transport Group uses insurers to cover operational civil liability and products adapted to its business and in compliance with customer requirements.

As part of equipment contracts, the Group's subsidiaries are contractually bound to maintain equipment with a life span of several decades. A specific plan is set up to manage obsolescence of each project, with the assistance of the manufacturer and/or operator. The requirement to keep equipment operational and reliable during this time period imposes on the equipment supplier the need to ensure leading edge technology and to set up a stock of spare parts in order to avoid a sudden break in supply. Contractual obligations (duty to alert, end of life orders, selection of a second source, etc.) are imposed on the Group's own suppliers.

In French contracts, the legal liability for hidden defects also applies throughout the life of the product even though, between professionals, its application may be expressly excluded by contract.

Liability as a result of product defects may also have an effect in terms of risk, even if the user often only knows the operator, while the chain of contract prevails between the operator, the car builder, the equipment manufacturer and the supplier.

At 31 March 2013, a €30.4 million provision for risk of non-conformity of products sold was recognised in the financial statements. These risks were estimated by project managers and engineers.

RISK OF COUNTERFEIT

In the area of intellectual property, the Faiveley Transport Group holds a portfolio of patents and brands that provide it with competitive advantages. Every entity with a design office has set up a process to monitor technology to detect all inventions patented by third parties that may thwart its future developments.

Groups within the leading technical project teams have been organised internally to detect every risk related to the counterfeiting of intellectual and/or industrial property rights that may be held at third-party premises.

The Group avoids granting licences to countries where counterfeiting is not easily punished.

Across the selection of specialists in intellectual property, the Group has built a portfolio of patents and brands that is regularly analysed and evaluated. On behalf of the Group, these specialists carry out surveillance of all similar patents and/or brands and take the necessary steps to protect the Group's rights in that area, both in France and abroad.

The technology, as well as the expertise held by the Group, are also automatically protected by terms of secrecy, which is reflected in the signature of confidentiality agreements with both customers and suppliers very early in the pre-contract relationship.

It should be noted here that, as part of an arbitration procedure carried out under the auspices of the International Chamber of Commerce, Faiveley Transport Malmö sought the conviction of Wabtec Corporation for the misappropriation by Wabtec, since 1 January 2006, of intellectual property relating to friction brake cylinders (BFC- TBU brakes), as well as two other braking product concepts (PB-PBA actuators) that are unique to Faiveley Transport. On 24 December 2009, the arbitration was notified to the parties: the arbitration award confirmed that Faiveley Transport is still the owner of trade secrets in relation to the manufacture of the products, and that Wabtec had breached the license agreement once it had been cancelled, as well as certain obligations resulting from this agreement. Furthermore, the award confirmed that certain aspects of the reverse engineering process implemented by Wabtec to obtain a product that is utterly different from Faiveley Transport's may be deemed tainted.

Faiveley Transport Malmö was awarded US$3.9 million in damages plus interest from Wabtec.

Wabtec was also ordered to pay the royalties that Faiveley Transport should have received in respect of products sold by Wabtec on orders resulting from contracts signed before the licence expired and delivered from 2006. In addition, Wabtec was ordered to cease using manufacturing drawings and other documents relating to these products, except for those that enable Wabtec to fulfil orders resulting from contracts signed before the licence agreement was revoked.

The enforcement order of the arbitration award in the US was granted by a New York Court on 10 May 2010. Wabtec implemented this final judgment.

Following the favourable outcome of the arbitration, on 14 May 2010, Faiveley Transport initiated a new legal action against Wabtec before the courts of New York, through its subsidiaries Ellcon National, Faiveley Transport USA, Faiveley Transport Nordic and Faiveley Transport Amiens, in compensation for damages suffered in the US on the basis of unfair competition and the violation of trade secrets. In a ruling on 13 April 2011, the district court in New York acknowledged that Wabtec was responsible to the corporate plaintiffs for acts of unfair competition, misappropriation of confidential and secret information, which was the property of Faiveley Transport, and unjust enrichment concerning the friction brake cylinders (BFC-TBU) and PB-PBA actuators.

On 28 June 2011, a jury in the New York Federal Court rendered a verdict against Wabtec for damages in the amount of US$18.1 million, plus interest, to Faiveley Transport USA, Faiveley Transport Nordic, Faiveley Transport Amiens and Ellcon National for market losses suffered in North America due to the dishonest conduct of Wabtec Corporation. Wabtec appealed this ruling on 26 August 2011. At the same time, the plaintiffs filed a counter-appeal contesting the judge's decision to reject their request for punitive damages. The New York Court of Appeals gave its ruling on 6 February 2013, upholding the order for Wabtec to pay the sum of US$15 million in compensation to the plaintiffs. The judge set the interest at US$0.8 million.

In May 2008, the US company Wabtec Corporation issued a writ against Faiveley Transport USA in the Pennsylvania courts for unfair competition on US soil. No figure was attributed to their claim. This proceeding was in response to the two procedures described above, launched by Faiveley Transport Group. On 23 September 2011, Wabtec waived the benefit of this proceeding after it was announced that the Faiveley Transport Group had obtained a favourable outcome before the New York Courts.

TAX RISK

The Group has set up the rules required to understand the subject in an international context and regularly uses external consultants, case by case, country by country, to best protect its interests.

A Tax Department was created within the holding company in January 2013.

Every Group subsidiary is led by a local team that must ensure that their business is conducted in compliance with the local regulations in force.

The tax audit instituted on Faiveley Transport Leipzig during the 2012/2013 financial year is being finalised. The adjustments notified to date relate for the most part to temporary items. A provision was recognised in the financial statements at 31 March 2013.

OTHER RISKS

- **Anti-competition risks:** the Group's business sector is not significantly exposed to this type of risk. In fact, the modest number of players as well as the system for public tenders is not open to this kind of illegal behaviour.
- **Corruption risks:** certain contractual requirements have been specifically considered and prepared to protect the Group against any abuse in this area. An ethics charter was set up and the Purchasing Department has formalised a Code of Conduct for its teams to protect itself against any abuse in this area.
- **Illegal practices:** certain Group companies and/or employees may be subject to investigations by the judicial authorities. These investigations could result in the Group being fined. The Group has internal control rules and procedures to manage the risks related to these illegal practices, which have been strengthened particularly in recent years. Within this context, Faiveley Transport has given every employee an ethics charter which requires strict compliance with the rules set out in particular to prevent corruption. However, given the extent of its geographic coverage, Faiveley Transport cannot guarantee that problems will not arise, or that such difficulties will not have a significant effect on its image or its financial performance.
- **Risks related to acquisitions, sales and other transactions:** the Group continues to make company acquisitions as well as to create joint ventures with foreign partners. In February 2012, Faiveley Transport finalised the acquisition of Graham-White Manufacturing Company. During the last few financial years, the Group also created joint ventures, in particular in China and the United States. These transactions can involve risks linked to the valuation of associated assets and liabilities, as well as in the integration of staff, operations, technologies and the products acquired. The Group does not have total assurance that these operations or companies do not include any unforeseen liabilities at the time the transaction is completed. Nevertheless, the Group minimises the risks by requesting that the seller provide guarantees proportionate to the size of the transaction as well as conducting extensive investigations with the assistance of external consultants.

1.1.5.4 Industrial and environmental risks

In this area, the Group has identified accurately and thoroughly the various classes of risks it may confront due to the nature of its business.

These classes are the following:

HEALTH AND SAFETY RISKS

In the countries in which it operates, the Group faces a significant amount of legislation and standards related to environmental protection that is increasingly restrictive, particularly in relation to air and water emissions, the use of hazardous products and waste disposal and decontamination methods. In the majority of countries in which the Group has industrial facilities, permits, licences, and/or authorisations or prior notifications are required for operations. These sites must comply with and are subject to regular inspections by the competent authorities.

The procedures aimed at ensuring the correct application of environmental, health and safety regulatory provisions are decentralised and controlled by each site. Environmental, health and safety costs are budgeted at site or activity level.

In each of the Group's industrial site, a safety coordinator manages all aspects of site "health, safety and environment" on a daily basis, making the necessary checks in the factory, studying and recording the products received, updating the job files and organising training.

The objective of general management is to integrate safety into the management system for quality and the environment (QHSE approach), an approach heavily promoted and supported by the Group's insurers.

The job files summarising the risks of various activities and specifying the required individual protection equipment are displayed at all workstations. Every accident with work stoppage is subject to a detailed analysis of the circumstances and causes and where necessary, leads to action being taken to prevent any recurrence.

At French sites, a single administrative document has been established and a fire work permit has been instituted for all third parties liable to work using hot spots on the premises.

Improvements have been made to the storage of chemicals and paint to avoid risk of fire.

CONTINUITY OF BUSINESS AFTER A DISASTER

Each industrial site has identified potential emergency and accident situations and set up regularly tested emergency plans.

Concerning the risk of production interruption following a fire or flood, it should be noted that the major industrial sites have set up emergency procedures describing the steps to take following a large scale incident that could fully or partly paralyse the operation of the site in question.

Business continuity plans are being developed at the Group's major sites in order to take the necessary steps and reduce consequences as soon as possible after an incident. A list of companies that can provide repair equipment as well as those specialising in decontamination of electrical devices, has been compiled.

Those in charge of taking the major tasks after a disaster have been designated in advance to design the most adequate response. Taking account of the size of these sites as well as, in some cases, the proximity of other Group establishments in the same geographical area, it is necessary to consider specific and rapid solutions to reduce the consequences of a large scale incident.

The majority of production tasks can be outsourced and are for the most part manual. The machines, though expensive, can be acquired relatively rapidly. In addition, the interdependence of sites is limited.

INCREASED COST OF RAW MATERIAL AND TRANSPORT RISK

This information is detailed in § 1.1.5.2 and in the notes to consolidated financial statements (Note E.14.4.c).

ENVIRONMENTAL RISK

The industrial sector in which the Group operates is subject to compliance with restrictive and multiple environmental standards. The production processes require the use of chemical products (paint, glue, surface treatment, etc.) that may pose a risk to the environment.

The major French sites are ICPE-classified (classified sites for the protection of the environment) and subject to a declaration system, and even authorisation from the competent regional authorities for some of them.

The administrative authorities may also require steps to be taken to prevent or treat, going as far as ordering the closure of sites, in the event of serious violations of applicable regulations in the area of labour and/or environmental law. The Faiveley Transport Group may also be held liable by third parties under the regulations protecting the environment and the general principle of criminal liability.

The Group is fully aware of the importance of managing compliance with regulations in the area of the environment by dedicating a senior engineer to the aspects of safety – health – environment, who must verify every day whether the site they are responsible for is compliant with the various applicable standards.

Audits carried out by the insurers have disclosed some weaknesses in the manner of understanding this risk. Even though the quantity of pollutants used in the business sector is very small, the Group may be called on to pay rehabilitation costs, fines or damages-interest relative to non-compliance with environmental standards.

The factories of Saint-Pierre-des-Corps and Amiens are both in industrial parks with a SEVESO classified site that stores oil and chemical products. Any issue on these sites close to the Group's production units could have a negative effect on their production capacity.

The sites of Saint-Pierre-des-Corps (Electromechanical) and La Ville-aux-Dames (Electronics) are situated in the flood plains of the Loire and Cher rivers. According to the risks map and the IGN69 system, the two sites are in an area of medium level risk. The two sites at Saint-Pierre-des-Corps are in a Natura 2000 area.

In addition, the Graham-White sites are located in areas at risk of flooding especially in the event of severe storms.

As the constraints of safety, environment and pollution are becoming ever greater, the Group is conscious that it may be obliged to incur expenditure, notably to enhance the procedures for monitoring soil, water and air pollution. However, these investments would not be significant for the Group.

In addition, in order to comply with European Directive n° 2004/35, the Group has decided to subscribe to additional guarantees in terms of insurance. Environmental damage and soil and water clean-up cover was added to the accidental and gradual environmental damage policies.

The Group is already committed to areas of improvement in the storage of products posing a danger to the environment (retention tank, anti-fire cabinets, management of condensates from compressors, elimination of PCB transformer, etc.) and the reduction in the emission of volatile organic compounds. The use of toxic products for surface treatment such as chromic acid and hydrofluoric acid, requires adequate and regular monitoring (once a quarter), which is carried out by each applicable site.

Below are specific matters facing the Group at present:

- Faiveley Transport Amiens, as the last remaining operator of classified facilities in Sevran, at 4 boulevard Westinghouse, a site occupied by Sab Wabco until 1999 for the production of cylinders for braking systems, was declared to be a polluted site and therefore likely to create pollution or represent an on-going risk for people and the environment, according to an order from the Prefect on 11 April 2005. This order requested that Faiveley Transport Amiens conform to certain procedures to remediate the site. It should be mentioned here that the land concerned was sold on 16 September 2002 by Faiveley Transport Amiens and that the acquirer, in an express condition of the transfer document, agreed to make it his personal business and to take full responsibility for all potential clean-up work deemed necessary under the administrative proceeding launched by the Prefecture of Seine Saint-Denis, regarded as complete as of the notification of the order mentioned above. The site was again sold under a legal deed signed on 16 December 2009. The new owner committed to carry out the remediation, pollution clean-up and soil improvement of the site, under his own responsibility and at his own expense, in line with current and future guidelines, formal notices and administrative rulings that have been or are liable to be taken against Faiveley Transport Amiens (formerly Sab Wabco) and to handle all complaints, legal actions, claims or proceedings related to the environmental condition of the building, its soil and subsoil. The new owner is a specialist in this type of work.

  On 21 June 2011, the Administrative Court of Montreuil dismissed the Commune of Sevran's claim disputing the implicit decision of the prefect of Saint-Denis to take no action and to close the investigation related to the request to remediate the site concerned. This decision was not appealed in the two months following the notification of the Administrative Court's judgment. This proceeding was thus closed.

- In 2003, the Brazilian subsidiary of the Sab Wabco Group, not yet acquired by the Faiveley Transport Group, sold land to the company Cyrela. A risk of soil pollution was identified in 2004, subsequent to the purchase of the Sab Wabco Group by Faiveley Transport, as a result of which the latter bore the costs of soil decontamination. Due to this risk of pollution, Cyrela retained a part of the sale price (R$3.7 million, or €1.6 million, remains outstanding).

  The situation is currently as follows: decontamination work continues under the agreed conditions. Site meetings are regularly held with the contractor and local authorities to assess soil quality. On completion of the work that will allow the contaminated soil to achieve a level of quality acceptable to local authorities, Cyrela may request building permits. At the issuance of these permits, the amount withheld may be released and the payment made.

  At 31 March 2013, a provision of R$1.3 million had been recognised in relation to this issue (€0.5 million).

- On 19 January 2011, Faiveley Transport Amiens received a prefectural order requiring it to proceed with monitoring and diagnostic measures for the water table at its site situated at Zone Industrielle Nord, Rue André Durouchez, 80000 Amiens, France. It must prepare a management plan to carry out groundwater monitoring, to look for sources of soil pollution and proceed with the development of a management plan for pollution found at its site, in accordance with the Circular of 8 February. The Company has taken action which allows it to meet the provisions of this order.

- On 29 June 2012, Faiveley Transport Amiens received from both SCI GDLMA and Together, whose interests are related, a summons seeking to secure the payment of a lump sum of €760 thousand per plaintiff, liable to be adjusted, on the grounds of failure to meet disclosure requirements and in relation to the warranty for hidden defects of plots of land located respectively in Sevran and Livry Gargan, which the two companies deem to be polluted. These plots were sold in 1989, 1992 and 1993 by Sab Wabco. Faiveley Transport Amiens sought the inadmissibility of the claims before the competent court on the grounds that they exceeded the statute of limitation. Status hearings are in progress.

- At the end of March 2013, the company Graham-White Manufacturing Co. incorporated a reserve of US$4.5 million into its accounts, designed to cover potential environmental risks at its American sites.

Although the Group is involved in the decontamination of certain industrial facilities or other sites, it considers its sites to be in compliance with their operating licence and its operations in general to be in line with current environmental laws and regulations.

1.1.5.5 IT risk

The Group's unwavering concern is to protect its IT infrastructure, data and application software. Centralised applications are hosted with several partners who ensure the physical security of the hardware and software protection access within a "Service Level Acceptance" agreement.

The Group's policy is to roll out more and more centralised applications that make communication and mobility increasingly easier. The Group attaches great attention to anti-intrusion systems (firewalls) and information access security profiles.

The Group is committed to an ambitious project to be completed by 2016, which primarily covers:

- further standardising the FAIVELEY network into a single Windows domain through the rollout of ACTIVE DIRECTORY;
- virtualising servers and workstations through the use of CITRIX technologies;
- streamlining administrative processes through the rollout of a core solution *via* a single ERP;
- implementing a PDM (Product Data Management) system to manage engineering in the design offices;
- rolling out a CRM (Customer Relationship Management) system;
- introducing a shared reporting and performance indicator management system (Business Intelligence).

To secure the rollout of a single ERP, the Group Management has set up a project platform at the Group level, and enlisted the help of external consultants. The pilot phase now being complete, the industrial rollout will begin in 2013 and will take three years.

1.2 REPORT ON FAIVELEY TRANSPORT'S PARENT COMPANY FINANCIAL STATEMENTS AT 31 MARCH 2013

1.2.1 PARENT COMPANY FINANCIAL STATEMENTS (FRENCH GAAP)

1.2.1.1 Income statement

	2012/2013	2011/2012
Sales	**56,747**	**52,681**
EBITDA* *% of sales*	4,879 *8.60%*	(681) *(1.29%)*
Profit from recurring operations *% of sales*	4,061 *7.16%*	(1,599) *(3.03%)*
Operating profit/(loss) *% of sales*	**4,061** *7.16%*	**(1,599)** *(3.03%)*
Net finance income/(expense)	27,282	(9,992)
Exceptional income/(expense)	(46)	(243)
Income tax	(4,534)	835
NET PROFIT/(LOSS)	**26,762**	**(10,999)**

** Operating profit plus amortisation and depreciation.*

Faiveley Transport continues to provide services for the Group, as the holding and management company. The €56.7 million sales achieved in 2012/2013 grew by €4 million compared to the previous year (€52.7 million).

Costs incurred by Faiveley Transport for services provided to subsidiaries were rebilled. The operating profit was €4 million, compared to a loss of €1.6 million in the 2011/2012. This improvement is mainly due to the net proceeds of €1.7 million relating to the Wabtec compensation received (whilst for the previous financial year €0.6 million in fees had been recognised) by the rebilling of the final charge of €1.3 million to the subsidiaries due to the allocation of free shares which ended in December 2012, as well as by better control of certain expense items.

The net finance income was €27.3 million, compared to a net expense of €10 million in the previous year. In 2012/2013, dividends of €37.5 million were collected, compared to €1.3 million in 2011/2012, due to the implementation of a more active policy relating to the transfer of the dividends of subsidiaries from the 2012/2013 financial year onwards.

Excluding dividends, the net finance income increased by €1.2 million. This was primarily due to the €2.1 million decrease in the interest expense, foreign exchange gains of €0.6 million, a €0.8 million positive movement in financial provision reversals and charges, offset by the waiver of a €2.6 million financial liability in relation to its subsidiary o.o.o Faiveley Transport.

The €4.5 million income tax charge recognised at 31 March 2013 reflects the tax consolidation charge of €0.6 million recorded during the period, increased by the €3.9 million corporate tax charge generated by the German subsidiaries Faiveley Transport Holding GmbH & Co. KG and Faiveley Transport Leipzig GmbH & Co. KG.

1.2.1.2 Balance sheet

	2012/2013	2011/2012
Net non-current assets	1,066,019	1,057,476
Current assets	81,419	54,288
Cash and cash equivalents	331,719	334,297
TOTAL ASSETS	**1,479,157**	**1,446,061**
Equity	192,508	177,807
Provisions	2,396	1,884
Financial debt	1,249,122	1,238,275
Other liabilities	35,131	28,095
TOTAL EQUITY AND LIABILITIES	**1,479,157**	**1,446,061**

Net non-current assets take account of the recognition of a €384.8 million technical deficit, registered on the transfer of Faiveley Transport and Faiveley Management's assets and liabilities to Faiveley SA, intangible assets of €17.5 million, property, plant and equipment of €0.7 million, equity investments of €501.4 million, receivables of €161.2 million attached to these investments and other financial investments of €0.4 million.

Equity investments increased by €1.5 million during the year. This increase was due to the payment in full of the capital of the Chinese subsidiary Faiveley Transport Systems Technology (Beijing). Furthermore, receivables attached to equity investments increased by €4.5 million, primarily due to an increase in current accounts. Loans to subsidiaries decreased by €6 million.

Current assets increased by €27 million during the year. This was primarily due to the €12 million Wabtec compensation and dividends of €15 million to be collected from the Swedish subsidiary.

Cash and cash equivalents decreased by €2.6 million during the year. This resulted from a €10.5 million improvement in cash balances and a €13.1 million decline in marketable securities. On the liability side, bank overdrafts increased by €38 million.

Equity increased from €177.8 million at 31 March 2012 to €192.5 million at 31 March 2013. This €14.7 million positive movement may be analysed as follows:

- payment of dividends: €12 million;
- profit for the year: €26.7 million.

Provisions increased by €0.5 million to €2.4 million. An additional charge of €0.1 million was booked to serve the share subscription plan and the free share allocation plan (€0.2 million and €1.4 million, respectively). Provisions for litigations increased by €0.3 million, showing a balance of €0.5 million at 31 March 2013.

Financial debt was valued at nominal value and comprised:

- the €56.9 million bond-type issue (USPP);
- the €292.6 million syndicated loan granted by a banking pool;
- current bank and cash pooling overdrafts (Group cash management) for €324.5 million;
- the loan subscribed from the Faiveley Transport Malmö subsidiary, for €10.2 million;
- credit current accounts with Group companies, for €563.4 million;
- accrued interest in relation to the above financial debt, for €1.4 million;
- the balance of the special reserve for employee profit sharing, for €65 thousand.

Other liabilities also increased by €7 million during the year. This change was primarily due to the increase in trade receivables, including legal fees of €2.3 million relating to the Wabtec dispute, and the increase in tax liabilities in France for €2.3 million and tax liabilities of the Leipzig and Witten subsidiaries for €1.2 million.

1.2.2 EVENTS AFTER 31 MARCH 2013

On 17 May 2013, Faiveley Transport acquired 100% of Schwab Verkehrstechnik AG, a Swiss leading designer and manufacturer of couplers and buffers for freight and rail transit markets.

1.2.3 RESEARCH AND DEVELOPMENT COSTS

None in the Faiveley Transport parent company financial statements.

1.2.4 CHANGE OF METHOD DURING THE YEAR

Nil.

1.2.5 INFORMATION ON NON-TAX DEDUCTIBLE CHARGES

Non-tax deductible charges at 31 March 2013 amounted to €16,431. They generated a tax charge of €5,918.

1.2.6 INFORMATION ON PAYMENT TERMS

At 31 March 2013, trade payables posted to the balance sheet totalled €11,6 million, of which €9,1 million related to international intercompany invoices, due in 60 days at month-end, payable on the 5th of the month.

The ageing analysis was as follows:

	30 days	60 days	+ 60 days	Total
Trade payables at 31 March 2013	2,627	535	8,413	11,575
Trade payables at 31 March 2012	1,361	931	10,073	12,365

1.2.7 TREASURY SHARES

The Company directly and indirectly holds 2.61% of its share capital.

1.2.8 ANALYSIS OF RESULTS AND ALLOCATION OF THE 2012/2013 NET PROFIT

TABLE OF RESULTS OF FAIVELEY TRANSPORT FOR THE LAST FIVE YEARS

Attached to this report, pursuant to the provisions of Article R. 225-102 of the Commercial Code, is the table of the results of the Company for each of the last five years.

PROPOSED ALLOCATION OF NET PROFIT

We would ask you to approve the annual financial statements (balance sheet, income statement and notes) as presented to you, showing a net profit of €26,762,496.06.

We would also ask you to approve the following allocation of net profit for the financial year ended 31 March 2013:

- Profit for the year €26,762,496.06
- Increased by:
  Retained earnings €44,715,256.31
- Distributable profit: €71,477,752.37
- – Less dividend payment, *i.e.* €0.95 per share: (€13,883,444.40)

The balance of €57,594,307.97 will be allocated in full to "Retained earnings".

The dividend will be payable with effect from 19 September 2013.

Taking account of the allocation, the equity of the Company amounts to €178,624,285.99.

Should the Company hold treasury shares at the time of the payment, the distributable profit corresponding to the unpaid dividend due to the holding of the shares will be allocated to the account "Retained earnings".

It should be noted that over the last three financial years, the following sums were paid in dividends: €12,422,029.20 for the financial year 2011/2012, €17,285,653.20 for the financial year 2010/2011 and €17,285,653.20 for the financial year 2009/2010.

1.3 INFORMATION ON THE SHARE CAPITAL

1.3.1 BYLAW CONDITIONS GOVERNING REVISIONS TO THE SHARE CAPITAL AND CORPORATE RIGHTS

The share capital is increased, either by the issue of new shares, or by an increase in the nominal value of existing shares.

New shares are fully paid, in cash, by offset against current liabilities of the Company, by capitalisation of reserves, profits or share premium, by transfer in kind or by conversion of bonds. New shares are issued at their nominal value, or at that amount increased by a share premium.

An Extraordinary General Meeting is the only competent body to decide to increase the share capital, based on a report by the Management Board. A reduction in share capital is authorised or decided by an Extraordinary General Meeting that may delegate to the Management Board all powers to effect the transaction. A capital increase must be completed within five years from the date of the General Meeting that decided or authorised it.

1.3.2 SHARE CAPITAL ISSUED AND AUTHORISED UNISSUED SHARE CAPITAL

1.3.2.1 Share capital issued

At 31 March 2013, the share capital of the Company was €14,614,152. It comprised 14,614,152 shares of €1 nominal value each, fully paid, all of the same class.

REVISION TO THE SHARE CAPITAL AND RIGHTS ATTACHED TO SHARES

Any revision to the share capital or rights attached to securities that comprise it is subject to the law; the bylaws do not provide for specific requirements.

FORM AND REGISTRATION OF SHARES

Shares are held in nominative or bearer form at the choice of the shareholder. Both these categories are subject to the law that relates to them.

EXISTENCE OF THRESHOLDS IN THE BYLAWS

Apart from the legal requirement to inform the holding company of certain fractions of the share capital, there is no particular requirement in the bylaws.

IDENTIFICATION OF BEARER SHAREHOLDERS

Except in instances specified by the law, fully paid up shares are either held in nominative or bearer form, at the shareholders' discretion. Shares are registered in accordance with the terms and conditions provided for by law.

The Company is authorised to use, at any time, the legal provisions in respect of identification of holders of securities giving, immediately or in time, the right to vote at Shareholders' Meetings.

COMPANY SHARE REGISTRAR

The Company has delegated its share registrar service to Société Générale Securities Services: 32, rue du Champ de Tir – BP 81236 – 44312 Nantes Cedex.

TRANSFER OF SHARES

Company shares may be freely transferred between living persons or upon the death of the holder. Transfers of Company shares involving third parties and the Company are completed by way of an account-to-account transfer order. Shares in the Company that are not fully paid in respect of payments due cannot be transferred.

1.3.2.2 Authorised unissued share capital

DELEGATION OF AUTHORITY TO INCREASE THE SHARE CAPITAL

At the Combined General Meeting of 14 September 2011, a resolution (nineteenth resolution) was approved by the shareholders to delegate authority to the Management Board to increase the share capital, with waiver of the pre-emption right, through a private placement to qualified investors or for the benefit or a restricted circle of investors.

This resolution was adopted by a qualified majority.

Pursuant to Articles L. 225-129, L. 225-129-2, L. 225-135 and L. 225-136 of the Commercial Code, the Management Board was authorised to increase the share capital, with waiver of the pre-emption right, with the facility of effecting the transaction in one or more offerings in accordance with section 2 of Article L. 411-2 of the Monetary and Financial Code, and not exceeding 10% of the share capital of the Company on the date of the General Meeting.

This authorisation was given for a period of 26 months from 14 September 2011.

On 3 February 2012, the Management Board implemented this delegation, having been granted approval of the planned transactions by the Supervisory Board on 23 November 2011.

As part of the acquisition of US company Graham-White Manufacturing Co., the acquisition contract, concluded on 22 December 2011 and amended on 10 January 2012, provided for the acquisition price of the Graham-White Manufacturing Co. shares to be partly paid to the sellers in new Faiveley Transport shares.

As a result, on 3 February 2012, the Management Board decided to increase the share capital of the Company by a nominal amount of €209,441, thereby increasing it from €14,404,711 to €14,614,152 through the issue of €209,441 new shares in the Company with a par value of €1 each, to be issued at a price of €53.086 per share. The total subscription price was therefore €11,118,384.93. The issue price corresponds to the weighted average of the share price over the last three trading days preceding the date the subscription price of the capital increase is set, less a discount of 5%.

1.3.3 SHAREHOLDERS AND VOTING RIGHTS AT 31 MARCH 2013

1.3.3.1 Analysis of shareholders and voting rights

According to the list of nominative shareholders provided by Société Générale and the identification of a certain number of bearer shareholders, the shareholders and the voting rights in the Company at 31 March 2013 were as follows:

Principal shareholders at 31 March 2013	Number of shares	% of capital	Single voting rights	Double voting rights	Total voting rights	% voting rights
Financière Faiveley	6,315,412	43.21%	26,237	6,289,175	12,604,587	56.64%
François Faiveley Participations (FFP)	1,159,288	7.93%	208,165	951,123	2,110,411	9.48%
François Faiveley	225	0.00%	-	225	450	0.00%
Thierry Faiveley	214,524	1.47%	214,524	-	214,524	0.96%
Erwan Faiveley	612	0.00%	607	5	617	0.00%
TOTAL FAIVELEY FAMILY	**7,690,061**	**52.62%**	**449,533**	**7,240,528**	**14,930,589**	**67.09%**
Directors and senior executives(1)	152,894	1.05%	17,063	135,831	288,725	1.30%
Treasury shares	382,050	2.61%	-	-	-	0.00%
Nominative shares(2)	724,493	4.96%	79,320	645,173	1,369,666	6.15%
Free float	5,664,654	38.76%	5,664,654	-	5,664,654	25.46%
TOTAL	**14,614,152**	**100.00%**	**6,210,570**	**8,021,532**	**22,253,634**	**100.00%**

(1) Excluding Erwan Faiveley and François Faiveley.
(2) Excluding the Faiveley family, senior executives and treasury shares.

To the knowledge of the Company, no other shareholder held more than 5% of the voting rights at 31 March 2013.

1.3.3.2 Analysis of the share capital over the last three years

	2012/2013 % of capital	2011/2012 % of capital	2010/2011 % of capital
Nominative shares	58.06	58.66	60.15
Free float	41.94	41.34	39.85

1.3.3.3 Share capital of the Company subject to pledges

Name of shareholder registered as pure nominative form	Beneficiaries	Start date of pledge	Expiry date of pledge	Condition for release of pledge	Number of shares pledged at 31 March 2013	% of capital pledged
Financière Faiveley	Société Générale and Crédit Lyonnais	24/03/2006	31/03/2016	Full repayment of loan granted	70,400	0.482
François Faiveley Participations	Société Générale	October 2012	October 2019	Full repayment of loan granted	218,818	1.497
François Faiveley Participations	Crédit Lyonnais	24/03/2006	30/03/2013	Full repayment of loan granted	2,031	0.014

1.3.4 MOVEMENTS IN THE SHARE CAPITAL DURING THE LAST SIX YEARS

Date	Transactions	Increase in capital (€)	Cumulative number of shares	Capital (€)
31 March 2007	Nil	Nil	12,529,585	12,529,585
31 March 2008	Nil	Nil	12,529,585	12,529,585
31 March 2009	Issue of new shares	1,875,126	14,404,711	14,404,711
31 March 2010	Nil	Nil	14,404,711	14,404,711
31 March 2011	Nil	Nil	14,404,711	14,404,711
3 February 2012	Issue of new shares	209,441	14,614,152	14,614,152
31 March 2012	Nil	Nil	14,614,152	14,614,152
31 MARCH 2013	**NIL**	**NIL**	**14,614,152**	**14,614,152**

1.3.5 EMPLOYEE INTEREST IN THE COMPANY'S SHARE CAPITAL

At 31 March 2013, FCPE Faiveley Shares held 15,360 shares (0.10%) in the Company and employee shareholding accounted for 1.01% of the share capital.

1.3.6 BUYBACK BY THE COMPANY OF ITS OWN SHARES

At 31 March 2013, the Company held 382,050 of its own shares, representing 2.61% of its share capital. The book value of these shares was €19,190,175.68 and their market value was €14,897,412.73.

The Combined General Meeting of 14 September 2012 was called to approve a new share buyback programme in its ninth resolution. A description of this programme, prepared in accordance with the provisions of Article 241-2 of the AMF General Regulations, is presented hereafter, as provided by Article 241-3-III of the same regulations. As a result, it will not be subject to a specific publication.

1.3.6.1 Objectives of the share buyback programme authorised by the Combined General Meeting of 14 September 2012:

Shares may be bought back to:

- ensure the liquidity and to support the market for Faiveley Transport shares by an investment services provider *via* a liquidity contract that conforms to the ethics charter recognised by the Autorité des Marchés Financiers;
- grant them to employees and management of the Group according to the terms and conditions of the law (options to purchase shares, employee profit-sharing, allocation of free shares);
- cancel them by way of reduction in capital within the limits set by law;
- retain them within the limit of 5% of the capital and use them in exchange or payment, notably as part of acquisitions initiated by the Company, by way of public offer or other;
- implement any other market practice that is permitted by the Autorité des Marchés Financiers and more generally all transactions that conform to the regulations in force.

1.3.6.2 Maximum percentage of the share capital, maximum number and features of shares the Company is proposing to buy back and maximum purchase price

Purchase of shares in the Company may relate to a number of shares such that the number of shares held following these purchases does not exceed 10% of the shares comprising the share capital of the Company, knowing that the percentage will apply to the capital adjusted according to transactions that may occur subsequent to this General Meeting.

The maximum purchase price is set at €70 per share.

The maximum amount allocated to the buyback programme is €51 million.

Taking account of the 382,050 shares already directly or indirectly held by the Company at 31 March 2013, the maximum number of shares that the Company may acquire as part of this share buyback programme would be 1,079,365.

1.3.6.3 Validity of the share buyback programme

This authorisation will remain valid for eighteen months, *i.e.* until 14 March 2014.

During the year ended 31 March 2013, the Company did not buy back any Faiveley Transport shares, excluding those carried out by an investment service provider through a liquidity contract.

At the Combined General Meeting to be held on 12 September 2013, a draft resolution providing for the renewal of this buyback programme for a further period of eighteen months will be submitted to shareholders for approval.

Should this resolution be adopted at the next General Meeting, the authorisation granted to the Management Board will supersede that provided by the General Meeting of 14 September 2012.

1.3.7 CONTRACT TO STIMULATE TRADING OF THE FAIVELEY TRANSPORT SHARE

At 30 September 2012, the Company terminated the liquidity contract it had awarded to Oddo Corporate Finance.

Since 1 October 2012, a liquidity contract complying with the AMAFI ethics charter and recognised by the Autorité des Marchés Financiers has been implemented between the Company and Exane BNP Paribas to stimulate trading.

The resources allocated to the previous liquidity account have been fully allocated to this new liquidity contract, namely:

- 10,000 Faiveley Transport shares;
- €492,865.

During the year 2012/2013, Oddo Corporate Finance and Exane BNP Paribas purchased 126,087 shares and sold 123,763 shares on behalf of the Company.

The average price of the shares bought during the year was €45.10 and €44.86 for shares sold. At 31 March 2013, the Company held 12,392 shares through the market stimulation contract (being 0.08% of its share capital) for a market value of €635,311.17, *i.e.* a price per share of €51.27.

1.4 CORPORATE AND MANAGEMENT BODIES

1.4.1 CORPORATE GOVERNANCE

1.4.1.1 Composition of the Management Board

The Management Board comprises between three and seven members, selected or not from among the shareholders and appointed by the Supervisory Board, which confers on one of them the position of Chairman. The members of the Management Board must be individuals.

The Management Board is appointed for a period of three years by the Supervisory Board, which may replace members who have died or resigned, in accordance with the law.

No individual may be appointed as a member of the Management Board if they do not meet the conditions of qualification required by Directors of public limited companies, if they have been deemed incompatible, in default or subject to a prohibition forbidding them access to these functions, if they are a Statutory Auditor to the Company, were or are a parent or related under the conditions set by Article L. 225-224 of the Commercial Code, if they are a member of the Supervisory Board, if they already have two other positions on the Management Boards of other companies or if they chair two other public limited companies.

Every member of the Management Board must be under 65 years old. If this age limit is reached in office, the Director in question is considered to have resigned and a new Director will be appointed as provided by this article.

Every member of the Management Board may be linked to the Company through an employment contract that remains in force during the term of office and upon its expiry. Members of the Management Board may be reappointed.

In accordance with the bylaws, the Chairman who is granted the power to represent the Company carries the title “Chairman and Chief Executive Officer”.

There are no family relationships between members of the Management Board.

Members of the Management Board are as follows:

Thierry Barel

Chairman of the Management Board	Born 11 February 1961
Nationality:	French
Number of shares held:	6,391
Date appointed:	1 April 2011 (member of the Management Board since 22 September 2009)
Current term of office expires:	June 2014
Other appointments within the Group:	
Member of the Supervisory Board of: Faiveley Transport Lekov **Chairman of:** Faiveley Transport Amiens Faiveley Transport NSF Faiveley Transport Tours **Chairman of the Board of Directors of:** Ellcon National Faiveley Transport Acquisition Faiveley Transport Far East Faiveley Transport Ibérica Faiveley Transport Malmö Faiveley Transport Nordic Faiveley Transport Systems Technology (Beijing) Faiveley Transport USA **Manager of:** Faiveley Transport Witten Faiveley Transport Verwaltungs	**Director of:** Amsted Rail Faiveley Datong Faiveley Coupler Systems Faiveley Transport Asia Pacific Faiveley Transport Belgium Faiveley Transport Birkenhead Faiveley Transport Canada Faiveley Transport Italia Faiveley Transport Korea Faiveley Transport Plzen Faiveley Transport Rail Technologies India Faiveley Transport Tamworth Graham-White Manufacturing Qingdao Faiveley Sri Brake Sab Wabco Sab Wabco D&M Sab Wabco Investment Sab Wabco Products Sab Wabco UK Shanghai Faiveley Railway Technology Shijiazhuang Jiaxiang Precision Machinery SW D&M Products
Terms of office which expired during the last five financial years:	
Chief Executive Officer of:	Faiveley Transport Tours
Chairman of:	KIS
Director of:	Photo-Me Internationa* Prontoshop Transequipos
Profile:	

Thierry Barel graduated from ENSAM as an engineer and holds a degree from IMD.
Before joining the Faiveley Transport Group, from 2007 to 2009 Thierry Barel served as Chief Executive Officer of PhotoMe International, a Group listed on the London Stock Exchange that manufactures and operates automatic distribution machinery and instant photographic printing. Beforehand, he spent the greater part of his career with industrial group Staübli, a world leader in mechatronics, where he ultimately held the position of Chief Executive Officer.

** Listed company.*

Erwan Faiveley

Member of the Management Board	Born 27 July 1979
Nationality:	French
Number of shares held:	612
Date appointed:	27 September 2005
Current term of office expires:	June 2014
Other current appointments:	
Chairman of: Financière Faiveley François Faiveley Participations Consortium Viticole & Vinicole de Bourgogne **Permanent representative of:** FFP chez la Société Bourguignonne d'Exploitation Viticoles	**Manager of:** Faiveley Frères Faivinvest SARL Société Civile Viticole Faiveley SCI du Dauphiné SCI Voir Venise SCI du 13 square Henri Pâté
Profile:	

Erwan Faiveley graduated from École Supérieure de Commerce de Paris and holds an MBA from the Columbia Business School. He worked with the Bacou-Dalloz Group from 2002 to 2004, before his appointment as Chairman and Chief Executive Officer of FFP, Financière Faiveley and CVVB in 2004.

Guillaume Bouhours

Member of the Management Board	Born 3 July 1976
Nationality:	French
Number of shares held:	6,520
Date appointed:	1 April 2011
Current term of office expires:	June 2014
Other appointments within the Group:	
Chairman of the Supervisory Board of: Faiveley Transport Lekov **Manager of:** Faiveley Transport Verwaltungs	**Director of:** Faiveley Transport Acquisition Faiveley Transport Belgium Faiveley Transport Birkenhead Faiveley Transport Ibérica Faiveley Transport Italia Faiveley Transport Korea Faiveley Transport Malmö Faiveley Transport Nordic Faiveley Transport Rail Technologies India Faiveley Transport Systems Technology (Beijing) Faiveley Transport Tamworth Faiveley Transport Tresmonice o.o.o Faiveley Transport Sab Wabco Sab Wabco D&M Sab Wabco Investment Sab Wabco Products Sab Wabco UK SW D&M Products
Terms of office which expired during the last five financial years:	
Member of the Supervisory Board of:	HMY International Souriau Technologies Holding Souriau Holding Souriau Stromboli Investissements
Director of:	Faiveley Transport Olympia Group of Companies Transequipos
Profile:	

Guillaume Bouhours graduated from engineering schools Ecole des Mines de Paris and Ecole Polytechnique.
Guillaume Bouhours was a Director of Sagard, a private equity fund and a previous shareholder of Faiveley Transport. In this role, he participated actively in Sagard's investment decisions and was involved throughout the decision-making process from the analysis of the investment opportunity through to the finalisation of the financial and legal aspects of each transaction and the monitoring of companies held by Sagard.
Guillaume Bouhours previously worked in the European Merger & Acquisition Department of investment bank Morgan Stanley.

1.4.1.2 Composition of the Supervisory Board

Pursuant to the bylaws, the Supervisory Board comprises a minimum of five members and a maximum of ten members.

The Company adopted the form of a public limited company with a Management Board and a Supervisory Board at the General Meeting held on 27 September 2005. The first members, formerly Directors of the Company constituted as a public limited company with a Board of Directors, were appointed for an initial period of three years and were reappointed at the Annual General Meeting held on 17 September 2008 for a period of 6 years, in accordance with the Company's bylaws.

The Combined General Meeting of 14 September 2011 amended Article 19 of the Company's bylaws. The term of office of Board members is three years, but as an exception and to allow the implementation and the maintenance of staggered terms of office for members of the Supervisory Board, the latter may be appointed by the General Meeting for periods of one (1) or two (2) years. Board members may be re-appointed.

The option to stagger the terms of office of members of the Supervisory Board was implemented when terms of office were submitted for approval by the Combined General Meeting of 14 September 2011. The term of office of one third of Board members thus expires every year.

Any shareholder, individual or corporate, may be appointed as a Member, subject to their holding at least one share in the Company (Article 19 of the bylaws).

The Supervisory Board elects, from among its own members, a Chairman and a Vice-Chairman, who are individual shareholders, otherwise their appointment is null and void. The Chairman and Vice-Chairman are responsible for calling Board meetings and leading discussions.

Where a legal entity assumes the function of a member of the Supervisory Board, it is required to designate a permanent representative who is subject to the same conditions and requirements and who has the same civil and personal liability as if they were a member of the Board in their own name.

Members of the Management Board, as well as current or former Statutory Auditors and their parents or relatives under the laws, may not be members of the Supervisory Board.

The education and professional experience of Board members are quite varied, given that they have all held high-level management positions.

With regard to the independence criteria defined by the Supervisory Board, and after a study of the individual position of each member of the Supervisory Board, at 31 March 2013 four of the current ten members may be considered independent: Hélène Auriol-Potier, Nicoletta Giadrossi-Morel, Christian Germa and Maurice Marchand-Tonel.

At 31 March 2013, the Supervisory Board comprised ten members, nine of which are French nationals; Nicoletta Giadrossi-Morel is an Italian national and Christopher Spencer has dual French and British nationality. The average age of the members at 31 March 2013 was 58.

The members appointed by the General Meeting are as follows:

Philippe Alfroid

Chairman of the Supervisory Board	Born 29 August 1945
Nationality:	French
Number of shares held:	200
Date appointed:	22 September 2009 (Member of the Board since 27 September 2005)
Current term of office expires:	September 2015
Other current appointments:	
Director of:	Essilor International* Essilor of America Eurogerm Gemalto
Terms of office which expired during the last five financial years:	
Deputy CEO of:	Essilor International
Director of:	Sperian Protection* Gentex Optics EOA Holding EOA Investment Omega Optical Holding Essilor Canada Pro-Optic CanadaShanghai Essilor Optical Company Faiveley Transport
Profile:	
Philippe Alfroid is an ENSEHRMA-Grenoble engineer and holds a Master of Science from Massachusetts Institute of Technology (MIT). Philippe Alfroid worked as a consultant for the company PSDI. He then joined Essilor in 1972, where he was Chief Executive Officer from 1996 to 2009.	

** Listed company.*

François Faiveley

Vice-Chairman of the Supervisory Board	Born 26 April 1951
Nationality:	French
Number of shares held:	225
Date appointed:	27 September 2005
Current term of office expires:	September 2015
Other current appointment:	
Director of:	Financière Faiveley
Terms of office which expired during the last five financial years:	
Director of:	Faiveley Transport
Profile:	
François Faiveley is a graduate from ESCAE (Business School) in Dijon. He has served in operational positions within the Faiveley Transport Group during the 1990s.	

Didier Alix

Member of the Supervisory Board	Born 16 août 1946
Nationality:	French
Number of shares held:	200
Date appointed:	13 September 2010
Current term of office expires:	September 2015
Other current appointments:	
Chairman of the Supervisory Board of:	Komercni Banka AS
Chairman and Chief Executive Officer of:	Sogébail SA
Member of the Supervisory Board of:	Société Générale Marocaine de Banques SA
Vice-Chairman of:	Fondation d'entreprise SG pour la solidarité
Director of:	Banque Roumaine de Développement SA SG Private Banking Suisse SA Yves Rocher SA Crédit du Nord SA Rémy Cointreau SA* Société de Gestion Saint Jean de Passy SA CIPM International SA Fayat SAS
Treasurer of:	Fondation Notre Dame (Non-profit organisation)
Terms of office which expired during the last five financial years:	
Deputy CEO of:	Société Générale*
Director and Vice-Chairman of:	Société Général de Banques en Côte-d'Ivoire
Permanent representative of Salvepar to the Supervisory Board of Latécoère	
Director of:	Franfinance National Société Générale Bank SAE Société Générale de Banques au Cameroun Société Générale de Banques au Sénégal Société Générale au Liban MISR International Bank Sogessur Fiditalia SG Private Banking Suisse SGBT Luxembourg
Profile:	
Didier Alix joined Société Générale in 1971, where he held a number of roles, notably within the Inspection Générale then as Head of Central Risk Control. He was also Head of Branch Offices before being promoted to Chief Executive Officer of Franfinance, then Head of Réseau France. In 1998, he became Deputy Chief Executive Officer for Individuals and Businesses. In 2006, he became Deputy Chief Executive Officer of Société Générale. He was Advisor to the Chairman and Chief Executive Officer from 2010 to 2012.	

** Listed company.*

Hélène Auriol-Potier

Independent member of the Supervisory Board	Born 26 November 1962
Nationality:	French
Number of shares held:	100
Date appointed:	14 September 2011
Current term of office expires:	September 2014
Profile:	

Hélène Auriol-Potier graduated as an engineer from the Ecole Nationale Supérieure des Télécommunications in Paris and completed an Executive Programme from INSEAD. She started her career at France Telecom in the United States and then joined the company Nortel where she held several positions before becoming Vice-President of the Service & Operations division. She then joined the company Dell where she was responsible for emerging markets in the Africa and Mediterranean region as Chief Operating Officer and member of the Executive Committee of Dell Emerging Markets. She subsequently joined Microsoft as Chief Executive Officer – Enterprises and Partners – and a member of the Executive Committee of Microsoft France. She currently is Managing Director of Microsoft Singapore.

Serge Choumaker

Member of the Supervisory Board representing employee shareholders	Born 18 September 1959
Nationality:	French
Number of shares held:	2,574
Date appointed:	13 September 2010
Current term of office expires:	September 2013
Profile:	

Serge Choumaker is Head of Accounting & Consolidation within the Faiveley Transport Group. Serge Choumaker holds a D.E.C.S. He joined the Faiveley Transport Group in September 2001. Previously, Serge Choumaker held management positions as Head of Accounting at the companies Lafarge and Ferembal.

Christian Germa

Independent member of the Supervisory Board	Born 11 February 1970
Nationality:	French
Number of shares held:	200
Date appointed:	27 September 2005
Current term of office expires:	September 2013
Terms of office which expired during the last five financial years:	
Director of:	Faiveley Transport Vodafone SA*
Profile:	

Christian Germa is a graduate of the Ecole Polytechnique and he is qualified as an ‘Ingénieur des Ponts et Chaussées’. He began his career in the Treasury Management of the Ministry of Finance, where he carried out the duties of Deputy Secretary General to the Comité Interministériel de Restructuration Industrielle (Inter-Ministerial Committee for Industrial Restructuring). He joined the Vinci Group in 2002, where he is today responsible for public-private partnerships.

** Listed company.*

Nicoletta Giadrossi-Morel

Independent member of the Supervisory Board	Born 16 May 1966
Nationality:	Italian
Number of shares held:	1
Date appointed:	14 September 2011
Current term of office expires:	September 2014
Other current appointments:	
Manager of:	HFM
Director of:	Aker Solutions asa
Terms of office which expired during the last five financial years:	
Chairman of:	SMO SAS Ramosport
Chairman of the Board of Directors of:	Dresser Rand SA Dresser Rand SAS
Profile:	

Nicoletta Giadrossi-Morel graduated in Mathematics and Economics from Yale University and holds an MBA from the Harvard Business School. She is currently a Shareholder Representative at Aker Asa, a Norwegian holding company which owns numerous companies in the Offshore Energy and Engineering sector. She was Vice-Chairman and Chief Executive Officer of Dresser-Rand, EMEA (Europe, Middle-East, Africa) for four years and spent ten years with General Electric where she held various profit centre management roles, in particular in the “Equipment Management” and “Oil & Gas” divisions. She also worked as a consultant for Boston Consulting Group and in private equity.

Robert Joyeux

Member of the Supervisory Board	Born 2 September 1947
Nationality:	French
Number of shares held:	138,831
Date appointed:	14 September 2011
Current term of office expires:	September 2013
Other current appointment:	
Manager of:	RJX Consulting
Terms of office which expired during the last five financial years:	
Chairman of the Management Board of: Faiveley Transport **Chairman of the Board of Directors of:** Faiveley Transport Faiveley Transport USA Faiveley Transport Acquisition Faiveley Transport Malmö Faiveley Transport Nordic Faiveley Transport Tamworth Faiveley Transport Ibérica Faiveley Transport Far East	**Director of:** Qingdao Faiveley Sri Rail Brake Datong Faiveley Coupler Systems Sab Ibérica Sab Wabco UK Sab Wabco Sales Sab Wabco Investment Sab Wabco D&M Sab Wabco Products SW D&M Products Faiveley Transport Birkenhead Faiveley Transport Belgium Faiveley Transport Korea Faiveley Transport Italia Shanghai Faiveley Railway Technology Transequipos Ellcon National CIM
Chairman of SAS: Faiveley Transport Tours **Chairman of the Supervisory Board of:** Faiveley Transport Lekov	**Manager of:** Faiveley Transport Verwaltungs Faiveley Transport Beteiligungs Sofaport
Profile:	

Robert Joyeux holds a PhD in electronics and graduated from Sciences Politiques Paris with an economics and finance degree. He held several positions before joining the Faiveley Transport Group. He worked for the company Thompson (Thales) for 17 years in a variety of industrial roles before joining Tekelec Airtronic as the General Manager of the Components and Systems Division and then Alstom as General Manager for the Protection, Energy and Control division and the British group Laird as Chief Executive Officer. Robert Joyeux held the position of Chief Executive Officer of Faiveley Transport from 2001. He resigned his duties on 31 March 2011 and currently works as a consultant.

Maurice Marchand-Tonel

Independent member of the Supervisory Board	Born 14 February 1944
Nationality:	French
Number of shares held:	200
Date appointed:	22 September 2009
Current term of office expires:	September 2013
Other current appointments:	
Chairman of the Board of Directors of:	European American Chamber of Commerce (Paris)
Director of:	European American Chamber of Commerce (New York) Essilor International*
Terms of office which expired during the last five financial years:	
Chairman of the Supervisory Board of:	Du pareil au même
Director of:	Faiveley Transport Financière Huysmans Groupe Souchier
Profile:	
Maurice Marchand-Tonel is an independent consultant. On leaving Harvard Business School, he started his career with the Boston Consulting Group with whom he co-founded their French and German offices. He was subsequently appointed Chairman of Compagnie Olivier, and subsequently Chief Executive Officer of Sommer and Chairman of Givenchy. He then managed Ciments Français International, before becoming Chairman of Transalliance until 1999. In 2000, he became a partner with Arthur Andersen, which has since become BearingPoint, where he has been Senior Advisor since 2004. Maurice Marchand-Tonel is also Senior Adviser of Investcorp (London and New York) and Newbury Piret (Boston). Maurice Marchand-Tonel is Chairman of the Board of Directors and a Founder of the European American Chamber of Commerce.	

* *Listed company.*

Christopher Spencer

Member of the Supervisory Board	Born 4 November 1962
Nationalities:	French-British
Number of shares held:	650
Date appointed:	22 September 2009
Current term of office expires:	September 2014
Other current appointment:	
Chairman of:	Maison d'Uzès SAS
Director of:	Adminium SAS
Terms of office which expired during the last five financial years:	
Chairman of the Supervisory Board of:	Cougar Management
Vice-Chairman of the Supervisory Board of:	Cougar Investissements SAS
Chairman of:	Cougar International
Director of:	SGD Olympia Faiveley Transport
Profile:	
Christopher Spencer holds both French and German degrees in higher management studies (ESC Reims and Fachhochschule Reutlingen) and is a Chartered Accountant. With an experience of over 20 years in private equity in Europe, the last 6 years of which were spent with Sagard funds, which he helped establish in the French market, since the start of 2010 Christopher Spencer has focused on his activities in private investment and as a business angel.	

Xavier de Lavallade, Legal Counsel for the Group, serves as Secretary of the Board.

Members of the Supervisory Board can be contacted through the Company's head office: Immeuble Le Delage – Hall Parc – Bâtiment 6A – 3 rue du 19 mars 1962, 92230 Gennevilliers, France.

1.4.2 CORPORATE OFFICERS' REMUNERATION

1.4.2.1 Remuneration and directors' fees

During 2012/2013, the total remuneration, direct and indirect, of all kind received by members of corporate bodies of the Company amounted to €1,451,668.

Pursuant to Article L. 225-102-1 of the Commercial Code, we disclose the remuneration and benefits in kind of every nature received by every corporate officer during the year from companies controlled pursuant to Article L. 233-16 of the Commercial Code:

Name	Remuneration			Directors' fees paid by Group companies	Benefits in kind
	Fixed	Variable	Deferred		
Philippe Alfroid Chairman of the Supervisory Board	-	-	-	46,500	-
François Faiveley Vice-Chairman of the Supervisory Board	-	-	-	30,500	-
Didier Alix Member of the Supervisory Board	-	-	-	21,000	-
Hélène Auriol-Potier Member of the Supervisory Board	-	-	-	19,000	-
Serge Choumaker(1) Member of the Supervisory Board, representing employee shareholders	117,232	19,848	-	-	-
Christian Germa Member of the Supervisory Board	-	-	-	37,000	-
Nicoletta Giadrossi-Morel Member of the Supervisory Board	-	-	-	19,000	-
Robert Joyeux Member of the Supervisory Board	-	-	-	19,000	-
Maurice Marchand-Tonel Member of the Supervisory Board	-	-	-	25,500	-
Christopher Spencer Member of the Supervisory Board	-	-	-	31,500	-
Thierry Barel(1) Chairman of the Management Board	430,822	174,140	-	-	Company car
Erwan Faiveley(2) Member of the Management Board	107,081	-	-	-	Housing allowance
Guillaume Bouhours(1) Member of the Management Board	218,959	134,586	-	-	Company car

(1) On 15 January 2013, the Management Board allocated free shares to a number of Group employees and executives, including 2,200 to Thierry Barel, 1,440 shares to Guillaume Bouhours and 720 shares to Serge Choumaker.
(2) Erwan Faiveley is an employee of François Faiveley Participations (FFP).

You will also find appended to this report a detailed description of total remuneration received by Directors of the Company, in accordance with AMF recommendations.

You should also decide on the total amount of Directors' fees paid to the Supervisory Board for the year ended 31 March 2013, which we propose be set at €325,000.

1.4.2.2 Summary of 2012/2013 transactions in Faiveley Transport shares by senior executives and individuals referred to in Article L. 621-18-2 of the Monetary and Financial Code

Director/Senior Executive	Financial instruments	Nature of transaction	Number of transactions	Value
Helen Balandrau, Member of the Executive Committee	Shares	Disposal	4	€508,275
Helen Balandrau, Member of the Executive Committee	Shares	Purchase	1	€33,444
Marc Jammot, Member of the Executive Committee	Shares	Disposal	1	€282,533
Rémi Causse, Member of the Executive Committee	Shares	Purchase	1	€34,991
Individual related to Olivier Ravit, Member of the Executive Committee	Shares	Disposal	1	€49,900
François Feugier, Chief Operating Officer and Member of the Executive Committee	Shares	Purchase	1	€14,696
Thomas Feser, Member of the Executive Committee	Shares	Purchase	1	€21,858
Guillaume Bouhours, Member of the Management Board	Shares	Purchase	1	€27,326

1.5 CORPORATE AND ENVIRONMENTAL RESPONSIBILITY

This information is provided in the “Corporate and environmental responsibility” Chapter on page 126 of this document.

Upon consideration of the report presented to you by the Statutory Auditors on this subject, your Management Board invites you to adopt the resolutions submitted to you for a vote, the text of which appears in appendix 5 to the present report, with the exception of the fourteenth resolution regarding a capital increase reserved for employees, which does not appear relevant.

2. FAIVELEY TRANSPORT CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

2.1 CONSOLIDATED BALANCE SHEET

ASSETS

(€ thousands)	Notes	31 March 2013 Net	31 March 2012 Net
SUBSCRIBED UNCALLED SHARE CAPITAL (I)		-	-
Goodwill	**E.1**	**651,235**	**648,981**
Intangible assets	**E.2**		
Other intangible assets		42,953	40,057
Property, plant and equipment	**E.3**		
Land		5,880	5,848
Buildings		24,558	25,662
Plant and machinery		28,559	27,436
Other property, plant and equipment		12,459	9,966
Non-current financial assets	**E.4**		
Shareholdings in unconsolidated subsidiaries		253	245
Shareholdings in associates		-	-
Other non-current financial assets		5,598	5,538
Deferred tax assets	**E.5**	**44,816**	**43,598**
TOTAL NON-CURRENT ASSETS (II)		816,311	807,331
Inventories	E.6	144,453	144,000
Work-in-progress on projects	E.7	98,524	91,048
Advances and prepayments paid		3,893	3,811
Trade receivables	E.8.1	184,193	179,402
Other current assets	E.8.2	34,877	18,515
Taxation receivable		7,427	11,048
Current financial assets	E.9	9,348	9,328
Short-term investments	E.10	22,035	41,080
Cash	E.10	152,923	169,166
TOTAL CURRENT ASSETS (III)		657,673	667,398
TOTAL ASSETS (I+II+III)		1,473,984	1,474,729

The attached notes are an integral part of the consolidated financial statements.

EQUITY AND LIABILITIES

(€ thousands)	Notes	31 March 2013	31 March 2012
Shareholders' equity			
Share capital		14,232	14,187
Share premium		88,633	86,488
Translation differences		2,782	(198)
Consolidated reserves		362,147	326,238
Net profit for the year		59,277	47,428
Total equity – Group share		**527,071**	**474,143**
Minority interests			
Share of subsidiaries' equity		28,832	27,362
Share of subsidiaries' profit for the year		3,957	3,640
Total minority interests		**32,789**	**31,002**
TOTAL CONSOLIDATED EQUITY (I)	**E.11**	**559,860**	**505,145**
Provisions for non-current liabilities and charges	E.12.1 & E.12.2	33,008	36,213
Deferred tax liabilities	E.5	28,271	22,090
Non-current borrowings and financial debt	E.13	314,841	352,865
TOTAL NON-CURRENT LIABILITIES (II)		**376,120**	**411,168**
Current provisions for liabilities and charges	E.12.3	83,910	80,353
Current borrowings and financial debt	E.13	62,600	95,420
Advances and prepayments received		120,860	124,674
Current liabilities	E.15	257,871	245,444
Tax payable		12,763	12,525
TOTAL CURRENT LIABILITIES (III)		**538,004**	**558,416**
TOTAL EQUITY AND LIABILITIES (I+II+III)		**1,473,984**	**1,474,729**

The attached notes are an integral part of the consolidated financial statements.

2.2 CONSOLIDATED INCOME STATEMENT

(€ thousands)	Notes	31 March 2013	31 March 2012
Sales	**E.18**	**987,706**	**900,523**
Cost of sales	E.19	(739,371)	(666,722)
Gross profit		**248,335**	**233,801**
Administrative costs(1)		(76,532)	(78,719)
Sales and marketing costs(1)		(43,790)	(39,898)
Research and development costs		(13,363)	(11,111)
Other operating income	E.20	5,474	2,687
Other operating costs	E.20	(7,825)	(12,071)
Profit from recurring operations		**112,299**	**94,689**
Restructuring costs	E.21	(1,025)	(1,213)
Gain/(loss) on disposal of non current assets	E.21	(164)	(204)
Other non-operating income/(expenses)		-	-
OPERATING PROFIT		**111,110**	**93,272**
Amortisation and depreciation charges included in operating profit		16,344	14,947
Operating profit before amortisation and depreciation charges		**127,454**	**108,219**
Net cost of financial debt		(10,583)	(10,700)
Other finance income		13,682	14,330
Other finance costs		(16,727)	(18,815)
NET FINANCE COST	**E.22**	**(13,628)**	**(15,185)**
PROFIT BEFORE TAX		**97,482**	**78,087**
Income tax	E.23	(33,871)	(26,912)
PROFIT FOR THE YEAR FROM CONSOLIDATED ENTITIES		**63,611**	**51,175**
Share of profit from associates		-	-
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**63,611**	**51,175**
Profit/(loss) of discontinued activities	E.23	-	-
PROFIT FOR THE YEAR FROM CONSOLIDATED ENTITIES		**63,611**	**51,175**
Minority interests		4,333	3,747
NET PROFIT – GROUP SHARE		**59,278**	**47,428**
Average number of shares(2)		**14,232,102**	**14,012,090**
Earnings per share, in €:			
Earnings per share		4.17	3.38
Diluted earnings per share		4.17	3.38
Net earnings per share, in € – Continuing operations:			
Earnings per share		4.17	3.38
Diluted earnings per share		4.17	3.38
Net earnings per share, in € – Discontinued operations:			
Earnings per share		-	-
Diluted earnings per share		-	-

(1) During the financial year, the management costs of operations were reclassified from sales and marketing costs to administrative costs. To ensure comparability of these costs, the presentation of the financial statements at 31 March 2012 was restated accordingly (€12.1 million).
(2) Excluding treasury shares.

The calculation of net earnings per share takes account of the deduction of all treasury shares held by Faiveley Transport, being a total of 382,050 shares at 31 March 2013 and 427,528 at 31 March 2012.

The attached notes are an integral part of the consolidated financial statements.

2.3 STATEMENT OF COMPREHENSIVE INCOME

(€ thousands)	FY 2012/2013	FY 2011/2012
NET PROFIT FOR THE YEAR	**63,611**	**51,175**
Translation adjustment	4,267	5,443
Financial assets held for sale	-	-
Gains (losses) on financial hedge instruments	143	(3,064)
Actuarial differences	-	-
Share of gain/(losses) recorded directly in equity of associates	-	-
Movement in non-current asset revaluation reserve	-	-
Other adjustments	(257)	(210)
Income tax on items of other comprehensive income	34	1,066
ITEMS OF OTHER COMPREHENSIVE INCOME, AFTER TAX	**4,188**	**3,235**
TOTAL COMPREHENSIVE INCOME	**67,799**	**54,410**
Attributable to:		
• **Group share**	62,177	48,418
• minority interests	5,622	5,992

2.4 CONSOLIDATED CASH FLOW STATEMENT

(€ thousands)	Notes	31 March 2013	31 March 2012
Cash flow from operating activities			
Net profit for the year – Group share		59,278	47,428
Net profit for the year – Minority interests		4,333	3,747
Adjustments for non-cash items:			
• Depreciation and amortisation charges		16,344	14,947
• Cost of performance-based shares*		2,410	1,832
• Asset impairment (including goodwill)		-	-
• Net movements in provisions		5,058	5,783
• Deferred tax		4,355	(2,849)
• Net loss/(gain) on asset disposals		164	810
• Grant income		(402)	(526)
• Share of profit/(loss) of associates		-	-
• Dilution profit		-	-
SELF-FINANCING CAPACITY		**91,540**	**71,172**
Changes in working capital requirement		**(19,929)**	**(4,030)**
Decrease (+) increase (-) of inventories		3,273	(1,417)
Decrease (+) increase (-) of trade and other receivables		(33,980)	1,507
Increase (+) decrease (-) of trade and other payables		6,947	2,431
Increase (+) decrease (-) of income tax		3,831	(6,551)
NET CASH FROM OPERATING ACTIVITIES		**71,611**	**67,142**
Cash flow from investment activities			
Purchase of intangible assets		(6,684)	(7,007)
Purchase of property, plant and equipment		(13,791)	(10,102)
Proceeds from capital grants		219	46
Proceeds from disposal of PPE and intangible assets		49	189
Purchase of financial assets		(506)	(1,001)
Proceeds from sale of financial assets		551	1,159
Cash and cash equivalents of acquired subsidiaries		-	(77,608)
Cash and cash equivalents of disposed subsidiaries		-	-
NET CASH USED IN INVESTMENT ACTIVITIES		**(20,162)**	**(94,324)**
Proceeds from new share issues		-	-
Buyback of treasury shares		523	932
Movement in share and merger premiums		-	-
Other movements in equity (cash-flow hedge)		163	(1,936)
Cash dividends paid to parent company shareholders		(12,062)	(16,738)
Cash dividends paid to minority interests		(3,319)	(1,356)
Proceeds from new borrowings		106,869	101,418
Repayment of borrowings		(185,087)	(43,711)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**(92,913)**	**38,609**
Net foreign exchange difference		(3,060)	1,169
Impact of increase/(decrease) in value of cash equivalents		3,614	1,516
Net increase/(decrease) in total cash and cash equivalents		**(40,910)**	**14,112**
Cash and cash equivalents at start of period		206,823	192,711
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	E.10	**165,913**	**206,823**

* *For greater clarity, the IFRS 2 charge was reclassified from net cash from financing activities to the self-financing capacity. For comparability reasons, the €1.8 million charge for the year to 31 March 2012 was similarly restated.*

2.5 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(€ thousands)	Share capital	Share premium	Reserves	Translation differences	Profit for the year	Total Group share	Minority interests	TOTAL
BALANCE AT 31 MARCH 2011	13,942	74,683	266,715	(3,396)	75,683	427,627	25,648	453,275
Allocation of 2010/2011 net profit	-	-	75,683	-	(75,683)	-	-	-
Dividends paid	-	-	(16,738)	-	-	(16,738)	(1,356)	(18,094)
Capital increase	209	10,909	-	-	-	11,118	-	11,118
Issue of shares (stock options)	41	1,215	-	-	-	1,256	-	1,256
Treasury shares	(5)	(319)	-	-	-	(324)	-	(324)
Stock option plans reserved for employees (value of services provided by staff)	-	-	1,832	-	-	1,832	-	1,832
Changes in Group structure	-	-	954	-	-	954	718	1,672
Net profit for the year	-	-		-	*47,428*	*47,428*	*3,747*	*51,175*
Items of other comprehensive income	-	-	*(2,208)*	*3,198*	-	*990*	*2,245*	*3,235*
Total income and expenses recognised	**-**	**-**	**(2,208)**	**3,198**	**47,428**	**48,418**	**5,992**	**54,410**
BALANCE AT 31 MARCH 2012	14,187	86,488	326,238	(198)	47,428	474,143	31,002	505,145
Allocation of 2011/2012 net profit	-	-	47,428	-	(47,428)	-	-	-
Dividends paid	-	-	(12,062)	-	-	(12,062)	(3,319)	(15,381)
Capital increase	-	-	-	-	-	-	-	-
Issue of shares (stock options)	20	601	-	-	-	621	-	621
Treasury shares	24	1,544	(1,666)	-	-	(97)	-	(97)
Stock option plans reserved for employees (value of services provided by staff)	-	-	2,408	-	-	2,408	-	2,408
Changes in Group structure	-	-	(120)	-	-	(120)	(515)	(635)
Net profit for the period	-	-	-	-	*59,277*	*59,277*	*4,333*	*63,610*
Items of other comprehensive income	-	-	*(80)*	*2,980*	-	*2,900*	*1,289*	*4,189*
Total income and expenses recognised	**-**	**-**	**(80)**	**2,980**	**59,277**	**62,177**	**5,622**	**67,799**
BALANCE AT 31 MARCH 2013	**14,232**	**88,633**	**362,147**	**2,782**	**59,277**	**527,071**	**32,789**	**559,860**

At 31 March 2013, Faiveley Transport held 382,050 of its own shares, being 2.61% of share capital

2.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. ACCOUNTING INFORMATION

Faiveley Transport is a French public limited company (société anonyme) with a Management Board and a Supervisory Board. At 31 March 2013, its registered office was located at:

Immeuble le Delage, Hall Parc, Bâtiment 6A
3 rue du 19 mars 1962
92230 – GENNEVILLIERS

The consolidated financial statements are prepared by the Management Board and submitted for approval to the shareholders at the General Meeting.

The financial statements for 2012/2013 were approved by the Management Board at its meeting on 31 May 2013. They were presented to and reviewed by the Supervisory Board at its meeting on 31 May 2013.

They will be submitted for the approval of the Shareholders' General Meeting on 12 September 2013.

The financial statements have been prepared on the basis that the Faiveley Transport Group operates as a going concern.

The Group's functional and presentation currency is the Euro. Figures are expressed in thousands of Euros unless indicated otherwise.

B. HIGHLIGHTS

1. Significant events

- To partly refinance the acquisition of US company Graham-White Manufacturing Co., completed on 3 February 2012, and diversify its financing sources, on 12 April 2012 the Group finalised its first private placement bond issue in the US with two institutional investors, for a total of US$75 million. This bond issue was made up of two tranches: one for US$30 million, with a 10-year final maturity and redeemable between 2017 and 2022, and a US$45 million bullet loan with a 10-year maturity. The average fixed interest is 4.91% per year.
- Faiveley Transport won its legal action against Wabtec in the United States. On 6 February 2013, the New York Court of Appeals upheld the jury's verdict against Wabtec, awarding the companies Faiveley Transport USA, Faiveley Transport Nordic, Faiveley Transport Amiens and Ellcon National US$15 million plus US$0.8 million in interest. This decision particularly punishes the trade secret misappropriation, acts of unfair competition and unjust enrichment relating to the manufacture of brake cylinders and actuators that make up brake systems.

  In accounting terms, the Wabtec accrued income was recorded in the balance sheet under "Other current assets" in the amount of €12.3 million (US$15.8 million). In the income statement, only the portion corresponding to damages for the period between 2007 and the end of March 2013 was recognised, *i.e.* €8.6 million (before expenses). The balance of €3.7 million, corresponding to damages for future periods, was recognised as a liability in the balance sheet under "Current liabilities". The total positive impact on the 2012/2013 operating profit was €6.2 million, after taking into account legal costs.

  This positive impact is composed of €1.7 million corresponding to the refund of costs incurred in the past and recognised under "other income", and €4.5 million corresponding to net damages recognised under gross profit.

2. Plans to allocate share purchase/ subscription options and free shares

During the financial year, a new free share allocation plan was established for the benefit of employees.

FREE SHARE ALLOCATION PLAN OF 14 SEPTEMBER 2012:

The Combined General Meeting of 14 September 2012 delegated the Management Board powers for the allocation of ordinary shares of the Company free of charge, either new or already issued, within the limit of 1% of the share capital of the Company on the day of the said General Meeting.

During the year, this authorization gave rise to:

- the allocation of free performance-based shares by the Management Board on 24 October 2012;
- the implementation of a free share allocation plan as part of an employee shareholding plan by the Management Board at 3 December 2012.

Share purchase/subscription option and free share allocation plans granted in previous years and currently still in force are detailed in Note E.11.1.

C. CONSOLIDATION PRINCIPLES AND METHODS

1. Basis of preparation

In application of regulation 1606/2002 of the European Union (EU), the consolidated financial statements of the Faiveley Transport Group are prepared in accordance with IFRS (International Financial Reporting Standards), as adopted by the European Union.

1.1 CHANGES IN ACCOUNTING POLICIES DUE TO NEW STANDARDS AND INTERPRETATIONS OF MANDATORY APPLICATION FOR INTERIM PERIODS AND FINANCIAL YEARS STARTING ON OR AFTER 1 APRIL 2012

The Group's financial statements were not affected by new standards or interpretations, revised or amended, of mandatory application on or after 1 April 2012 in the European Union.

1.2 NEW STANDARDS AND INTERPRETATIONS OF MANDATORY APPLICATION

- Transfer of financial assets (IFRS 7)

1.3 NEW STANDARDS AND INTERPRETATIONS WHOSE APPLICATION IS NOT YET MANDATORY

Amendments to IAS 1 – Presentation of items of other comprehensive income

The Group did not opt for the early application of the amendment to IAS 1 – "Presentation of items of other comprehensive income".

This amendment requires that items of other comprehensive income that will be recycled in the income statement be distinguished from those that will not.

The Group considers that the application of this amendment will have no material impact on the presentation of the published statement of comprehensive income.

Amendment to IAS 19 – Employee benefits

The Group did not opt for the early application of the amendment to IAS 19 "Employee benefits". The Group is currently analysing the impacts and practical consequences of the application of these standards and interpretations.

The application of the amended IAS 19 "Employee benefits" will be mandatory for financial years beginning on or after 1 January 2013, which is the financial year beginning on 1 April 2013 for the Group. This amendment introduces several modifications to the recognition of post-employment benefits, including:

- the recognition of all post-employment benefits granted to Group employees in the consolidated balance sheet. The corridor option and the option to amortise in the income statement the cost of past services over the average period of acquisition of entitlements by employees will be cancelled;
- the calculation of expected return on retirement plan assets will now be made using the same discount rate as that used for calculating the obligation under defined benefit schemes;
- the recognition of the impacts of changes to schemes in the income statement;
- the recognition of the impacts of remeasurement in items of other comprehensive income: actuarial gains and losses on the actuarial liability, outperformance (underperformance) of plan assets, *i.e.*: the difference between returns on plan assets and their yield as measured based on the discount rate of the actuarial liability, and changes in the effect of the limit placed on the asset.

The new provisions introduced by IAS 19 revised will be applied retrospectively by the Group.

The main impacts on the Group's consolidated financial statements at 1 April 2012 and 31 March 2013 were estimated as follows:

- increases in pension commitments of €4.2 million and €6.8 million, respectively, at 1 April 2012 and 31 March 2013;
- decreases in consolidated equity, excluding tax effect, of €4.2 million and €6.8 million, respectively, at 1 April 2012 and 31 March 2013.

Consolidation standards (IFRS 10, Consolidated financial statements; IFRS 11, Joint arrangements; IFRS 12, Disclosure of interests in other entities; IAS 28 revised, Investments in associates and joint ventures)

The Group did not opt for the early application of the consolidation standards (IFRS 10, IFRS 11, IFRS 12 and IAS 28 revised), adopted by the European Union and whose application will be mandatory for the Group as of 1 April 2014.

The Group is currently analysing the impacts expected from the application of these new standards, specifically IFRS 10 – Consolidated financial statements and IFRS 11 – Joint arrangements:

IFRS 10 – CONSOLIDATED FINANCIAL STATEMENTS

This standard defines control as being exercised when the investor is exposed, or has rights, to variable returns and has the ability to affect these returns through its power over the investee. The impact of the application of this new standard on the consolidated financial statements is not expected to be material.

IFRS 11 – JOINT ARRANGEMENTS

This new standard essentially provides for two distinct accounting treatments:

- Partnerships considered to be joint operations shall be recognised based on the share of assets, liabilities, revenue and expenses controlled by the Group. A joint operation may or may not be effected through a separate entity;
- Partnerships considered to be joint ventures shall be recognised according to the equity method, to the extent that they only entitle to ownership of a portion of the entity's net assets.

The Group is currently analysing its joint arrangements in light of IFRS 11, in order to determine whether they should be classified as joint operations or joint ventures.

IFRS 13 – Fair value measurement

The Group did not opt for the early application of IFRS 13 – Fair value measurement, the application of which is mandatory for the Group as of 1 April 2013.

IFRS 13 applies to standards that require or permit fair value measurements or disclosures. This standard introduces a single framework for the measurement of fair value and requires disclosures on measurements. It introduces a single definition of fair value based on the notion of exit price and uses a fair value hierarchy based on valuation derived from market prices rather that a specific valuation of the entity.

The impact of the application of this new standard on the consolidated financial statements is not expected to be material.

Amendments to IAS 32 and IFRS 7 – Offsetting financial assets and financial liabilities

The Group did not opt for the early application of these amendments adopted by the European Union and whose application will be mandatory for the Group as of 1 April 2014. These amendments clarify the application of offsetting rules and related disclosures.

1.4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED BY THE EUROPEAN UNION AND WHOSE APPLICATION IS NOT YET MANDATORY

- Financial instruments:
  - classification and measurement of financial assets (IFRS 9),
  - date of mandatory application and transitional methods (amendments to IFRS 9 and IFRS 7).
- Transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12).
- Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27).

The impact of the application of these provisions on the consolidated financial statements is currently being analysed by the Group.

2. Consolidation scope and methods

Companies over which the Group directly or indirectly exercises exclusive control are consolidated using the full consolidation method. In accordance with IAS 27, exclusive control is deemed to be present when more than one half of the Company's voting rights are held or when control is exercised through any other means.

Companies over which the Faiveley Transport Group exercises joint control are consolidated using the proportional consolidation method.

Companies over which the Faiveley Transport Group exercises significant influence over financial and operational policies are accounted for using the equity method. Significant influence is presumed when the Group holds more than 20% of the voting rights of a company.

Acquisitions or disposals arising during the financial year are reflected in the consolidated financial statements from the date on which effective control is transferred, unless the impact is not material to the income statement in the case of acquisitions carried out at the end of the financial year.

Intra-Group balances and transactions are eliminated for all consolidated companies.

Faiveley Transport Group companies that are consolidated are listed in Note G.1. Note G.2 lists companies that are not consolidated due to their insignificant impact on the Faiveley Transport Group's financial statements.

3. Use of estimates

In order to be able to prepare consolidated financial statements that comply with IFRS, Financial Management must make certain estimates and use assumptions that it considers realistic and reasonable. These estimates and assumptions affect the book value of the assets, liabilities, equity and results, and any contingent assets and liabilities, as presented at the balance sheet date. Financial Management regularly reviews its estimates on the basis of the information available to it. When events and circumstances are not in line with expectations, actual results may differ from such estimates.

The main accounting methods whose application necessitates the use of estimates relate to the following items:

3.1 RECOGNITION OF THE MARGIN ON LONG-TERM BUILDING AND SERVICE CONTRACTS AND RELATED PROVISIONS (SEE § C.6.1)

Revenue from long-term building and service contracts is recognised in proportion to the stage of completion of the contracts (see § C.6 below). Project reviews are organised on a regular basis so that the stage of completion and finalisation of the contract can be monitored. If the project review identifies a negative gross margin, a provision is immediately raised in respect of the loss relating to the work not yet carried out.

The total estimated income and expenses in respect of the contract reflect the best estimate of the future benefits and obligations under the contract. The assumptions used to determine the current and future obligations take into account technological, commercial and contractual constraints measured on a contract-by-contract basis.

Obligations under building contracts may result in penalties for delays in a contract's implementation schedule or an unexpected cost increase due to amendments to the project, a supplier's or subcontractor's failure to comply with its obligations or delays caused by unforeseen events or circumstances. Similarly, warranty obligations are affected by product failure rates, equipment wear and tear and the cost of actions needed to return to normal service.

Although the Group measures risks on a contract-by-contract basis, the actual costs resulting from the obligations associated with a contract may prove to be greater than the amount initially estimated. It may therefore be necessary to re-estimate the costs to completion when a contract is still in progress or to re-estimate provisions when a contract is completed.

3.2 MEASUREMENT OR DEFERRED TAX ASSETS (SEE § C.16)

The determination of the book values of deferred tax assets and liabilities and the amount of deferred tax assets to be recognised requires Financial Management to exercise its judgement as to the level of future taxable profits to be taken into consideration.

3.3 MEASUREMENT OF ASSETS AND LIABILITIES IN RESPECT OF RETIREMENT AND OTHER BENEFITS (SEE § C.15.1)

The measurement by the Group of the assets and liabilities relating to defined benefit schemes requires the use of statistical data and other parameters used to predict future trends. Such parameters include discount rate, expected return on plan assets, salary increase rate, staff turnover rate and mortality rate. When circumstances where actuarial assumptions prove to be significantly different from actual data subsequently observed, this could result in a substantial amendment to the charge for retirement and similar benefits, actuarial gains and losses and assets and liabilities stated in the balance sheet relating to these commitments.

3.4 MEASUREMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (SEE § C.9)

Goodwill, including intangible assets with an indefinite useful life, is tested for impairment each year on 31 March or more frequently if there are indications of impairment. The discounted future cash flow model used to determine the fair value of the Cash Generating Units utilises a certain number of parameters including estimated future cash flows, discount rates and other variables, and consequently requires the exercise of judgment to a significant degree.

The assumptions used to carry out impairment tests are the same for property, plant and equipment and intangible assets. Any future deterioration in market conditions or the achievement of poor operating performances could result in the Group being unable to recover the current book value of such assets.

3.5 MEASUREMENT OF FINANCIAL INVESTMENTS

Details of the method used to measure financial investments are provided in § C.10.3.

3.6 INVENTORIES AND WORK-IN-PROGRESS (SEE § C.12)

Inventories and work-in-progress are measured at the lower of cost and net estimated realisable value. Writedowns are calculated on the basis of an analysis of foreseeable trends in demand, technology and market conditions, the aim of which is to identify inventories and work-in-progress that are obsolete or surplus to requirements. If market conditions worsen to a greater degree than was forecast, additional writedowns of inventories and work-in-progress may prove necessary.

3.7 STOCK-OPTIONS AND FREE SHARES

Share subscription and/or purchase options as well as free shares granted to certain senior executives and employees of the Group are recognised in accordance with IFRS 2.

Options are measured at the allocation date. The fair value of options is a function of the expected life, exercise price, current price of underlying shares, expected volatility and share price.

The fair value of free shares is estimated on the allocation date, specifically based on their expected life, current price of the underlying shares, expected volatility and share price and takes into account the terms and conditions attached to the share allocation.

This value is recognised as personnel cost between the date of grant and the end of the vesting period and offset under equity.

3.8 GENERAL PROVISIONS

Details of the method used to measure other provisions for liabilities and charges are provided in § C.15.2.

4. Translation method

The consolidated financial statements are presented in Euro, the Group's reporting currency.

4.1 FOREIGN CURRENCY-DENOMINATED TRANSACTIONS

Transactions not denominated in the functional currency are translated at the exchange rate on the date when the transaction was first recorded.

At the balance sheet date:

- foreign currency-denominated monetary items must be converted at the closing rate;
- foreign currency-denominated non-monetary items valued at historical cost must be converted at the foreign exchange rate on the transaction date; and
- foreign currency-denominated non-monetary items valued at fair value must be converted using the foreign exchange rate on the date fair value was determined.

4.2 FOREIGN CURRENCY-DENOMINATED SUBSIDIARY FINANCIAL STATEMENTS

Subsidiary financial statements are prepared in the currency that is most representative of their economic environment. This currency is deemed to be their functional currency pursuant to IAS 21.

Subsidiary financial statements were translated into Euros using the following exchange rates:

- closing rate for all balance sheet items, with the exception of the components of equity which continue to be translated at historical exchange rates (translation rates used on the date the subsidiary was acquired by the Group);
- average rate for the period for income statement and cash flow statement items.

Translation differences arising in respect of the profit or loss and shareholders' equity are recognised directly in shareholders' equity under the heading "Translation differences" in the case of the Group's share, with the portion attributable to third parties being recorded in minority interests.

On the disposal of a foreign subsidiary, the translation differences relating to such disposal and recognised in shareholders' equity after 1 April 2004 are accounted for in the income statement.

↗ TRANSLATION EXCHANGE RATES USED IN THE CONSOLIDATION

	Closing rate		Average rate	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
Thai Baht	€0.026722	€0.024285	€0.025239	€0.023728
Swedish Krona	€0.119685	€0.113052	€0.116054	€0.110802
Czech Koruna	€0.038850	€0.040437	€0.039578	€0.040377
US Dollar	€0.780945	€0.748727	€0.776432	€0.725834
Australian Dollar	€0.812480	€0.779059	€0.800870	€0.758366
Hong Kong Dollar	€0.100583	€0.096427	€0.100107	€0.093317
Singapore Dollar	€0.628931	€0.596125	€0.624815	€0.579050
Taiwan Dollar	€0.026846	€0.025421	€0.026416	€0.024664
Swiss Franc	€0.820008	€0.830220	€0.826162	€0.823621
Pound Sterling	€1.182592	€1.199185	€1.226380	€1.158648
Iranian Rial	€0.000065	€0.000061	€0.000064	€0.000067
Brazilian Real	€0.389060	€0.411134	€0.386200	€0.428203
Russian Rouble	€0.025150	€0.025449	€0.024954	€0.024530
Indian Rupee	€0.014375	€0.015183	€0.014278	€0.015183
Korean Won	€0.000702	€0.000654	€0.000696	€0.000654
Chinese Yuan	€0.125628	€0.118922	€0.123507	€0.113450
Polish Zloty	€0.239212	€0.238614	€0.240074	€0.238614

5. Balance sheet date

All companies are consolidated on the basis of financial statements drawn up at 31 March 2013.

6. Income statement presentation

6.1 SALES REVENUE AND COST OF SALES RECOGNITION

In accordance with IAS 18.20, sales arising from contracts of less than one year in duration, which primarily relate to the sale of spare parts ("Services"), are recorded upon transfer of risks and rewards, which is generally at the time of delivery to the customer. The same applies to short-term service provisions, carried out from time to time.

For services provided over a longer period, sales are recognised based on the percentage of completion of services.

Sales arising from contracts of more than one year in duration are recognised using the percentage of completion method in accordance with IAS 11. Percentage of completion is measured in the large majority of cases on the basis of relating actual sales billed and delivered to the total contract sales value or more rarely, by relating the actual costs incurred (work carried out) to the total costs estimated for the contract (method used by Faiveley Transport Ibérica for the Barcelona metro platform door project).

The total estimated cost of completion includes direct costs (such as raw materials, labour and engineering) relating to the contracts. This includes costs already committed and future costs, including warranty costs and costs specific to the probable risks. Provision charges for losses to completion and other provisions on contracts are recorded to cost of sales in the income statement if, during the review of the contracts, it seems probable that the costs to which they relate will arise.

All changes in the conditions of contract fulfilment and all changes to margins at completion are recorded as cost of sales in the income statement in the period in which they are identified.

Warranty provisions are valued based on contract terms and an assessment of risks based on sector knowledge.

6.2 PROFIT FROM RECURRING OPERATIONS

This is the profit before restructuring costs, gains and losses on disposals of intangible assets and property, plant and equipment and exceptional accounting adjustments.

6.3 FINANCE INCOME AND COSTS

Finance income and costs include:

- interest income and expense on the consolidated net debt, which consists of borrowings, other financial liabilities (including liabilities in respect of finance leases) and cash and cash equivalents;
- dividends received from unconsolidated equity investments;
- the effect of discounting financial provisions;
- changes in financial instruments;
- foreign exchange gains and losses on financial transactions.

6.4 INCOME TAX

The Group calculates its income tax in accordance with tax laws applicable in the country where profits are taxable.

The current tax liability is calculated using the tax laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Group's subsidiaries and associates operate and generate taxable profits. Management periodically assesses tax positions taken in light of applicable tax regulations, where the latter are subject to interpretation, and determines, if applicable, the amounts it expects to pay to tax authorities.

Temporary differences between the book value of assets and liabilities and their tax base, tax losses carried forward and unused tax credits are identified in each taxable entity (or tax group, if applicable). The corresponding deferred tax is calculated using the tax rates that have been enacted or substantively enacted for the financial year during which assets will be realised or liabilities settled (see § C.16).

Pursuant to the CNC communication of 14 January 2010 relating to the accounting treatment of the component based on value added (CVAE) of the CET tax (*Contribution Economique Territoriale*) introduced in France by the 2010 Finance Act of 31 December 2009, following an analysis carried out by the Group and in light of its specific features, it was decided to treat the value-added based CVAE as income tax, in order to remain consistent with the classification of similar taxes in Germany and Italy (*Gewerbesteuer* and IRAP, respectively).

6.5 PROFIT OR LOSS FROM OPERATIONS HELD FOR DISPOSAL AND DISCONTINUED OPERATIONS

The net of tax profit or loss from discontinued operations as defined by IFRS 5 is presented under a separate heading in the income statement. It includes the net profit or loss of such activities during the year and up to their date of disposal, as well as the net gain or loss on the disposal itself.

6.6 EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to holders of ordinary shares of the parent company, divided by the weighted average number of ordinary shares outstanding during the financial period. Since the shares of the consolidating entity held by itself are deducted from shareholders' equity, these shares are excluded from the weighted average number of outstanding shares.

Diluted earnings per share is calculated based on the weighted average number of shares outstanding during the financial period adjusted for the number of shares that would be generated by the exercise of share subscription options as per the conditions of IAS 33.45 and subsequent.

7. Intangible assets

7.1 GOODWILL

On each acquisition, the Group identifies and assesses the fair value of all assets and liabilities acquired particularly intangible assets and property, plant and equipment, brands, inventories, work-in-progress and all provisions for liabilities and charges.

The unallocated difference between the cost of securities in companies acquired and consolidated and the fair value of assets and liabilities is recorded as goodwill. Where this difference is negative, it is taken directly to the income statement. When this difference is positive, it is recognised in the balance sheet.

In case of the partial acquisition of a company, goodwill will either be recognised based on the percentage of ownership of this new entity or fully consolidated, *i.e.* taking account of the share attributable to minority interests.

Acquisitions of minority interests in subsidiaries that are already fully consolidated

Prior to the application of revised IAS 27, the Group had elected to recognise additional goodwill, which corresponds to the difference between the acquisition cost of securities and the additional share in consolidated equity that these securities represented.

Acquisitions of minority interests are now recognised as a deduction from the Group's share of shareholders' equity.

Accounting treatment of put options on minority interests

Similar to the accounting treatment used for acquisitions of minority interests, the Group elected to use the option to recognise additional goodwill as part of the accounting treatment of put options on minority interests that existed prior to 1 April 2010. Put options granted after revised IFRS 3 and IAS 27 became applicable are recognised as a deduction from equity (see below § 10.6).

7.2 INTANGIBLE ASSETS ACQUIRED SEPARATELY OR PURSUANT TO A BUSINESS COMBINATION

Intangible assets acquired separately are recorded in the balance sheet at their historical cost.

Intangible assets (primarily brands) resulting from the valuation of assets of acquired companies are recorded in the balance sheet at their fair value, determined generally on the basis of appraisals by external experts when significant in value.

Intangible assets, other than those with indefinite useful lives, are amortised on a straight-line basis over their estimated useful lives, which are as follows:

- Software: straight line basis 1 to 10 years;
- Patents: straight line basis 5 to 15 years;
- Development costs: straight line basis 3 years.

7.3 INTERNALLY-GENERATED INTANGIBLE ASSETS

Research costs are expensed immediately when incurred.

Development costs on new projects are capitalised if all of the following criteria are strictly met:

- the project is clearly identifiable and its related costs are separately identified and reliably measured;
- the technical feasibility of the project has been demonstrated and the Group has the intent and the financial capability to complete the project and to use or to sell the products derived from this project;
- it is probable that the project will yield future economic benefits for the Group.

These costs related to the purchase of raw materials and labour. Capitalised project development costs are amortised on a straight-line basis over 3 years.

8. Property, plant and equipment

Property, plant and equipment are measured at their acquisition cost or at their fair value when new subsidiaries are acquired. Depreciation is calculated separately for every asset component that has a distinct useful life. The useful lives of the assets concerned are generally deemed to be as follows:

- Buildings 15 to 25 years;
- Fixtures and fittings 10 years;
- Industrial machinery and equipment 5 to 20 years;
- Tools 3 to 5 years;
- Vehicles 3 to 4 years;
- Office equipment and furniture 3 to 10 years.

LEASE CONTRACTS

Assets acquired under finance leases are recorded as assets when the lease agreement transfers substantially all the risks and rewards inherent to ownership of an asset to the Group. At each balance sheet date, a finance lease recognised as an asset gives rise to a depreciation charge (consistent with the depreciation policy applicable to other depreciable assets of the same nature). Lease agreements for which the risks and rewards of ownership are not transferred to the Group are treated as operating leases, with corresponding lease payments expensed on a straight-line basis over the lease term.

9. Impairment of asset values

Goodwill and intangible assets with indefinite useful lives are tested for impairment each year.

Intangible assets and property, plant and equipment with finite useful lives are tested for impairment as soon as there is any indication that such assets may have become impaired. Where relevant, a provision for impairment is recognised.

Impairment testing involves comparing the recoverable amount of the asset with its net book value. Recoverable amount is the higher of fair value less costs to sell and value in use.

Tests are carried out on the basis of Cash Generating Units (CGUs) to which these assets are allocated. A CGU is a consistent group of assets whose continuous utilisation generates cash inflows that are largely independent of cash inflows generated by other groups of assets.

The value in use of a CGU is determined based on the present value of the estimated future cash flows to arise from these assets, within the framework of economic assumptions and operating conditions anticipated by Group Executive Management. The measurement carried out is based mainly on the Group's three-year plan. Cash flows beyond that timeframe are extrapolated by applying a stable growth rate.

The recoverable amount is the sum of the present value of the cash flows and the present value of the terminal residual value. The discount rate is determined using the sector's weighted average cost of capital.

When this value is less than the book value of the CGU, an impairment loss, first allocated to goodwill, is recognised.

In the event of an indication of a recovery in value, this impairment loss may eventually be reversed to the extent that it does not exceed the net book value of the asset at the same date had it not been subject to a writedown. Impairment losses recorded on goodwill may not be reversed.

10. Financial assets and liabilities

Pursuant to IAS 32 and IAS 39, financial assets and liabilities comprise operating receivables and liabilities, financial loans and liabilities, shareholdings in unconsolidated companies, marketable securities, borrowings and other financial liabilities and derivative financial instruments.

On initial recognition, a financial instrument is valued at fair value, adjusted for issue costs:

- fair value, as defined by the applicable IAS, corresponds as a general rule to transaction value, with exceptions discussed below;
- under the IAS, the term "issue costs" is used to mean all of the ancillary costs directly attributable to the acquisition or implementation of the financial instruments.

In certain specific cases, e.g. loans, borrowings, operating receivables and liabilities which are interest-free or at beneficial rates, fair value does not correspond to the fair value on initial recognition in the balance sheet. In such cases, fair value is calculated by discounting the cash flows associated with the financial instrument, using the market rate increased by a risk premium.

At future balance sheet dates, financial assets and liabilities are recorded at either their amortised cost or fair value depending on the class of assets or liabilities to which they belong.

The accounting treatment of identified financial assets and liabilities is as follows:

10.1 OPERATING RECEIVABLES

At each balance sheet date, the Group assesses whether there is an objective indication of impairment of a receivable. If there are objective indications of impairment in respect of assets recognised at amortised cost, the book value of the asset is reduced *via* the use of an impairment account. The amount of the impairment must be recognised in the income statement.

If the amount of the impairment reduces during a subsequent accounting period, and if such reduction can be objectively linked to an event that occurred after the recognition of the impairment, the impairment loss previously recognised must be reversed to the extent that the book value of the asset does not exceed the amortised cost on the date the impairment loss is reversed. Any subsequent reversal is recognised in the income statement.

In the case of trade receivables, an impairment loss is recognised when there is an objective indication (such as a probability of the debtor suffering bankruptcy or significant financial difficulties) that the Group will be unable to recover the amounts due in accordance with the contractual terms of the invoice. The book value of the trade receivable is reduced *via* the use of a value adjustment account.

Within the framework of the factoring of trade receivables, an analysis of the risks and rewards relating to the transfer of such receivables must be conducted pursuant to IAS 39 (credit risk and interest rate risk primarily):

- if the risks and rewards are substantially transferred, the receivables are removed from the balance sheet against cash;
- if the risks and rewards are substantially retained, the receivables are maintained on the balance sheet with a corresponding liability being recognised, the transaction being accounted for as a borrowing guaranteed by receivables.

10.2 FINANCIAL RECEIVABLES AND LOANS

These financial instruments are also recorded at their amortised cost. They are subject to valuation tests, which are realised when there is an indication that their recoverable value is less than their book value, in accordance with the same principles as those described in Note C.10.1. The impairment loss is recorded in the income statement as are any loss reversals.

10.3 SHAREHOLDING IN UNCONSOLIDATED COMPANIES

These financial instruments are classified as assets held for sale. They are unlisted shares for which the fair value cannot be reliably determined and therefore the book value at which they are recognised is their acquisition cost.

In the event of an objective indication of impairment of the financial asset (notably a significant and sustained drop in its value), the impairment loss is recognised in the income statement and may not be reversed in a subsequent period other than on the sale of the shareholding concerned.

10.4 CASH, MARKETABLE SECURITIES AND CASH EQUIVALENTS

Cash and marketable securities reflected in the balance sheet include cash balances, bank accounts, term deposits maturing in less than three months and securities that can be traded on official exchanges. These short-term instruments comprise money market funds and certificates of deposit. They are considered by the Group as financial assets held for trading and are valued at their fair value, with any movements in fair value recorded to the income statement.

In the case of highly liquid short-term investments (maturity not exceeding three months), it is reasonable to assume that their fair value is equal to their book value (capitalised interest included).Such items are therefore classified as cash equivalents.

10.5 BORROWINGS AND OTHER FINANCIAL LIABILITIES

Borrowings and other financial liabilities are stated at amortised cost.

10.6 PUT OPTIONS HELD BY MINORITY SHAREHOLDERS IN GROUP SUBSIDIARIES

If the put options held by minority shareholders in Group subsidiaries have an impact on the transfer of risks and rewards associated with underlying securities, the put option gives rise to the recognition of a firm and immediate acquisition of the securities, with their payment being deferred.

In accordance with IAS 32, put options are recognised as financial liabilities if they have no impact on the transfer of risks and rewards. The amount reflected in the balance sheet corresponds to the present value of the exercise price of put options, measured according to the discounted future cash flow method. This liability is offset under equity.

Subsequent fair value movements are recognised:

- in equity, for the estimated change in value of the exercise price;
- in net financial income (cost) for the reversal of debt discounting.

Specific case of put options granted before 1 April 2010, *i.e.* before IFRS 3R and IAS 27R came into force

The difference between the present value of the liability and the book value of reclassified minority interests is recognised as “goodwill in progress” as long as the put option has not been exercised or extinguished.

When the put option is exercised, goodwill in progress is reclassified as goodwill.

Subsequent fair value movements are recognised as goodwill in progress and the impact of the reversal of debt discounting is taken to the income statement.

11. Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to movements in interest rates and in the exchange rates of foreign currencies. As part of its hedging policy, the Group uses interest rate swaps and contracts for forward purchases and sales of currencies. The Group may also use caps, floors and options.

11.1 EXCHANGE RISK

The Group operates in foreign countries and is therefore exposed to exchange risk as a result of its exposure to a number of currencies. The management of exchange risk is centralised by the parent company’s Treasury Department and comprises two parts:

- exchange risk management relating to tenders in foreign currencies (uncertain risk);
- exchange risk management relating to commercial contracts (certain risk)

The Group’s policy is to hedge all expected future transactions in each major currency.

11.2 INTEREST RATE RISK

The Group manages its interest rate cash flow risk through the use of variable rate against fixed rate swaps or caps and tunnels. From an economic point of view, the effect of these interest rate swaps or caps is to convert variable rate borrowings into fixed rate borrowings. The Group may also use structured instruments that do not qualify for hedge accounting.

A detailed description of the exchange and interest rate risks is provided in Note E.14 to the financial statements: “Financial instruments and financial risk management”.

11.3 DERIVATIVE FINANCIAL INSTRUMENT ACCOUNTING RULES

The majority of derivative instruments used by the Group qualify for accounting purposes as hedges if the derivative is eligible for hedge accounting and if the hedging is documented according to the principles of IAS 39. In practice, the derivative financial instruments not qualified as hedging by the Faiveley Transport Group are the following:

- foreign exchange options to cover tenders;
- structured interest rate swaps.

The derivative hedging instruments are recorded in the balance sheet at their fair value. The recognition of movements in the fair value of derivative instruments depends on the following three classifications:

- fair value hedges: the movements in the fair value of the derivative are taken to the income statement and offset, to the extent of the effective part, the movements in fair value of the underlying asset, liability or firm commitment, also recorded in the income statement. Forward exchange transactions and exchange swaps that cover certain commercial contracts and financial assets and liabilities denominated in foreign currencies are considered as fair value hedges;
- hedging future flows: the movements in fair value are recorded in equity for the effective part and reclassified in income when the item covered affects the latter. The ineffective part is taken directly to financial income and expense.

  Interest rate derivative instruments, as well as budget cash flow hedges are treated as future cash flow hedges;
- transaction derivatives: the movements in the fair value of the derivative are recorded in finance income and costs.

12. Inventories and work-in-progress

Inventories and work-in-progress include raw materials, work-in-progress and finished products. They are stated at the lower of production cost and estimated net realisable value.

Raw materials are measured using the weighted average cost method.

Work-in-progress and finished products are measured at their production cost. The cost of inventories includes direct raw material costs and, where relevant, direct labour costs as well as overheads incurred in bringing the inventories to their present location and condition.

Writedowns are recorded to take into account the risk of obsolescence.

13. Non-current assets held for disposal and discontinued operations

IFRS requires the separate disclosure in the balance sheet of the total value of assets and liabilities of operations held for disposal and discontinued without any offset. IFRS also requires the separate disclosure in the income statement of the total after tax profit realised from discontinued operations.

Non-current assets held for disposal may no longer be depreciated or amortised. They are valued at the lower of their book value and fair market value net of disposal costs.

14. Treasury shares

Faiveley Transport parent company shares held by the subsidiaries or the parent company are deducted from consolidated equity, with any gains or losses on their disposal being directly allocated to equity.

15. Provisions for liabilities and charges

15.1 PROVISIONS FOR RETIREMENT BENEFITS AND OTHER PERSONNEL COMMITMENTS

In accordance with the laws and practices of each country, Faiveley Transport Group participates in retirement benefit plans, social security plans, medical plans and employment termination indemnity schemes, with benefits based on several factors including seniority, wages and payments made into mandatory general plans.

These plans may be defined-benefit or defined-contribution plans.

Post-employment benefits – defined benefits

Following retirement, Group employees receive benefits (pension or allowance) funded by a number of Group companies. These defined benefit plans primarily concern the United Kingdom, Germany, France and Italy.

In the United Kingdom and Germany, the majority of these plans involve supplementary pension plans. In the United Kingdom, commitments are pre-financed by plan assets.

In France, employees are granted by law a retirement benefit for an amount that varies according to the applicable collective agreement, seniority of employment and final salary. This benefit is paid by the employer when the employee retires. The 2010 pension reform, which in particular plans to raise the retirement age from 60 to 62 years by 2017, was taken into account and treated as an actuarial gain or loss.

In Italy, the law provides for the payment by companies of the "Trattamento di Fine Rapporto" (Severance pay) or TFR for the benefit of employees. The TFR is funded by a 7.4% contribution paid by the employer and is accumulated so as to provide the employee with a lump sum when leaving the Company. The impact of the TFR reforms has been integrated since 31 March 2008. The provision established in the Company's financial statements relates to rights acquired prior to 1 January 2007. For rights acquired subsequently, the employer's commitment is limited to the payment of contributions to external funds.

Commitments for defined benefit plans are calculated based on the projected unit credit method. Actuarial differences (resulting from changes in assumptions or experience variances) are recognised according to the corridor method. That portion of actuarial gains or losses exceeding 10% of the higher of the value of future benefits and the value of plan assets is amortised over the average remaining employment life of participants in the plan.

Post-employment benefits – defined contributions

Contributions into defined contribution plans are expensed when made.

Other long-term benefits

Other long-term benefits primarily concern Germany (seniority bonuses and early retirement schemes) and France (seniority awards).

Actuarial differences for this type of plan are expensed when they arise.

The net expense for retirement commitments and similar benefits is broken down between cost of sales and fixed costs, according to the distribution of the Company workforce.

15.2 OTHER PROVISIONS FOR LIABILITIES AND CHARGES

In accordance with IAS 37, the Faiveley Transport Group recognises a provision when an obligation to a third party arises that will result in a probable loss or liability that can be reasonably measured. The Group reports a contingent liability as an off-balance sheet commitment when there is only a possibility of a resulting loss or liability or when it cannot be reasonably measured.

These provisions are determined based on the best knowledge available concerning risks incurred and their probability of realisation and are allocated to specific risks. They cover, in particular:

- probable after sales service expenditure arising from mechanical warranties;
- probable expenditure for industrial risks covered by contractual guarantees. The measurement of the provision amount is based on such factors as the products' technical complexities, their innovative nature, geographical proximity, etc.;
- litigation risks;
- losses on completion for the part exceeding the amounts due by the customers;
- restructuring costs when the restructuring has been officially announced and is subject of a detailed plan or whose execution has already begun.

These provisions are valued at their present value when their impact is significant and their measurement reasonably reliable.

Provisions for guarantees are calculated according to the percentage related to the type of product manufactured and experience gained of its reliability over time. The percentages vary from 1% to 6% according to the products and are applied to the sales achieved by project.

16. Deferred tax

In accordance with IAS 12, deferred tax is calculated using the balance sheet liability method (use of tax rates adopted or virtually adopted at the balance sheet date) for all temporary differences between the accounting and tax treatments of assets and liabilities of each Group entity noted at the balance sheet date.

Deferred tax assets arising from tax losses carried forward are recognised when it is probable that the Group will realise sufficient taxable profits in the next financial year to offset against the tax loss incurred.

Deferred tax is recorded in the income statement, unless it relates to items directly posted to other items of comprehensive income, in which case it is also recognised under other items of comprehensive income.

17. Segment reporting

In light of criteria defined by IFRS 8 and given the Group's internal organisation (steering of activities by project, with projects generally comprising several products and involving the participation of several Group subsidiaries) and the structure of the market, the Group opted for a presentation similar to IAS 14, pursuant to IFRS 8. In addition, it was deemed appropriate to retain an analysis by geographic region.

As a result, the application of IFRS 8 had no impact on the information presented at 31 March 2013 by the Group.

Segment reporting is presented in Note E.17.

D. CHANGES IN CONSOLIDATION SCOPE

1. Newly-created companies

Nil.

2. Acquisitions

2.1 DETAILS OF NEW ACQUISITIONS

Nil.

2.2 SUMMARY OF ACQUISITIONS DURING THE LAST THREE YEARS

Companies acquired	Main business	Acquisition date	% control	Acquisition cost
2011/2012				
Graham-White Manufacturing Co. and its subsidiaries	Design and manufacture of compressed air drying technology and brake components	3 February 2012	100%	US$118,477 thousand
2010/2011				
Faiveley Transport Schweiz AG (formerly Urs Dolder AG)	Manufacture of electrical heating devices	24 February 2011	80%	€2,926 thousand

3. Disposals and companies no longer consolidated

Nil.

4. Movements in goodwill during the allocation period

The value of assets contributed by Graham-White Manufacturing Co., following the acquisition of the company by the Group in February 2012, was restated and offset against goodwill.

This restatement resulted in an increase of US$0.6 million (€0.5 million) in the opening goodwill balance.

E. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING TABLES (€ THOUSANDS)

1. Goodwill

Goodwill mainly arises from the acquisition of subsidiaries and the purchase of minority interests in Faiveley SA by the holding company Faiveley Transport in 2008; these two companies have since merged into the current Faiveley Transport parent company.

This goodwill was measured in accordance with the partial goodwill method (see Note C.7.1).

Faiveley Group Management monitors its business performance by entity or group of entities, which generally correspond to a major area of specialisation (see table below). Goodwill has been allocated to the companies or groups acquired, except for goodwill arising from the purchase of minority interests which is monitored as a whole at Group level.

The following tables provide details of operating and closing goodwill balances for the reported periods, their change during the period and their allocation to the various companies or groups of companies corresponding to the cash generating units or groups of cash generating units used by Faiveley Transport for in-house monitoring:

The following table provides details of unallocated goodwill as at 31 March 2013:

	Gross	Accumulated impairment	Net 31 March 2013	Net 31 March 2012
Faiveley Transport minority interests	265,778	-	265,778	265,778
Sab Wabco Group (brakes and couplers)	234,004	-	234,004	234,004
Graham-White Manufacturing Co. (compressed air drying and brake components)	76,708	-	76,708	73,087
Amsted Rail-Faiveley LLC/Ellcon National Inc. (brake components)	35,187	-	35,187	33,736
Faiveley Transport NSF (air conditioning)	10,057	-	10,057	10,057
Nowe GmbH (sanding systems)	4,763	-	4,763	7,581
Faiveley Transport Tours*	6,061	-	6,061	6,061
Faiveley Transport Schweiz AG (formerly Urs Dolder AG) (heating)	2,264	-	2,264	2,264
Faiveley Transport Gennevilliers (sintered brakes)	13,470	-	13,470	13,470
Other	2,943	-	2,943	2,943
TOTAL	**651,235**	**-**	**651,235**	**648,981**

** Goodwill recognised following the purchase of Espas Group.*

CHANGE 2012/2013

	Gross 1 April 2012	Adjustments to opening goodwill	Acquisitions	Disposals	Impairment test	Other movements	Gross 31 March 2013
Faiveley Transport minority interests	265,778	-	-	-	-	-	265,778
Sab Wabco Group (brakes and couplers)	234,004	-	-	-	-	-	234,004
Graham-White Manufacturing Co. (compressed air drying and brake components)	73,087	456	-	-	-	3,165 (1)	76,708
Amsted Rail-Faiveley LLC/ Ellcon National Inc (brake components)	33,736	-	-	-	-	1,451 (1)	35,187
Faiveley Transport NSF (air conditioning)	10,057	-	-	-	-	-	10,057
Nowe GmbH (sanding systems)	7,581	-	-	-	-	(2,818) (2)	4,763
Faiveley Transport Tours	6,061	-	-	-	-	-	6,061
Faiveley Transport Schweiz AG (heating)	2,264	-	-	-	-	-	2,264
Faiveley Transport Gennevilliers (sintered brakes)	13,470	-	-	-	-	-	13,470
Other	2,943	-	-	-	-	-	2,943
TOTAL	**648,981**	**456**	**-**	**-**	**-**	**1,798**	**651,235**

(1) These movements are due to the translation difference on goodwill recognised in US Dollars: Graham-White Manufacturing Co. (US$98,224 thousand) and Amsted Rail-Faiveley LLC/Ellcon National Inc. (US$45,057 thousand).
(2) Adjustment to the goodwill of Nowe GmbH following the discounting of the put option on shares held by minority interests.

CHANGE 2011/2012

	Gross 1 April 2011	Adjustments to opening goodwill	Acquisitions	Disposals	Impairment test	Other movements	Gross 31 March 2012
Faiveley Transport minority interests	265,778	-	-	-	-	-	265,778
Sab Wabco Group (brakes and couplers)	234,004	-	-	-	-	-	234,004
Graham-White Manufacturing Co. (compressed air drying and brakes)	-	-	74,175	-	-	(1,088) (1)	73,087
Amsted Rail-Faiveley LLC/ Ellcon National Inc. (brake components)	32,077	(362)	-	-	-	2,021 (1)	33,736
Faiveley Transport NSF (air conditioning)	10,057	-	-	-	-	-	10,057
Nowe GmbH (sanding systems)	7,831	-	-	-	-	(250) (2)	7,581
Faiveley Transport Tours	6,061	-	-	-	-	-	6,061
Faiveley Transport Schweiz AG (heating)	2,264	-	-	-	-	-	2,264
Faiveley Transport Gennevilliers (sintered breaks)	1,013	-	-	-	-	12,457 (3)	13,470
Other	2,943	-	-	-	-	-	2,943
TOTAL	**562,028**	**(362)**	**74,175**	**-**	**-**	**13,140**	**648,981**

(1) These movements are due to the translation difference on goodwill recognised in US dollars: Graham-White Manufacturing Company (US$97,615 thousand) and Amsted Rail-Faiveley LLC/Ellcon National Inc. (US$45,057 thousand).
(2) Adjustment to the goodwill of Nowe GmbH following the discounting of the put option on shares held by minority interests.
(3) Reclassification of the Faiveley Transport Gennevilliers business goodwill.

At least once a year, at year-end, the Group carries out an impairment test on groups of cash generating units to which goodwill has been allocated. This test involves comparing their book value and their recoverable value. Should the recoverable value fall below the book value, impairment is recognised for the difference. No impairment was recognised in the current period nor in the previous period.

The recoverable value of all groups of cash generating units to which goodwill has been allocated was determined based on their estimated value in use.

The value in use is measured taking account of future cash flow forecasts approved by Management and covering a period of 3 years. This period includes the budget prepared for the year that follows the year for which financial statements have been prepared and the following two years. The Group benefits from very high visibility regarding future business activity: its order book at 31 March 2013 represents the equivalent of 19 months of sales (29 months in original equipment and 6 months in Services).

In determining the value in use, cash flows are determined based on standard WCRs, not taking account of potential restructuring and capital expenditure that may improve asset performance.

Future cash flow forecasts estimated beyond the 3-year period are extrapolated using a growth rate of:

- 2.5% for the two years that follow the last year of the plan,
- 1.5% for the following years and to infinity.

This rate is deemed prudent given the growth rates expected from the markets in which the Group operates.

These flows are discounted using the Weighted Average Cost of Capital as discount rate. This rate differs depending on the geographic location of the groups of CGUs:

	France	United States	All countries
Discount rate before tax	13.4%	13%	14.7%

The discount rate is determined based on the following market data:

Market data	France	United States	All countries
Risk-free rate on 10-year French government bonds	2.1%	1.8%	3.2%
Beta of sector	1.29	1.29	1.29
Market risk premium	7.2%	7.2%	7.2%

In addition to market data, Company parameters taken into account in the calculation of the discount rate include:

- estimated cost of debt: 1.4% for the 2012/2013 financial year (3-year swap rate, *i.e.* over the average maturity of Faiveley's debt and including an average spread of 80 bps);
- equity/debt ratio at the balance sheet date.

Given the Group's business model, the key assumptions that make it possible to determine the recoverable value are the growth rate and the discount rate. The Group considers that no reasonably likely change in key assumptions could lead the recoverable value to equal the book value. Sensitivity tests have been carried out on the two most significant goodwill items:

- For the Faiveley Transport CGU minority shareholders, the recoverable value is estimated at € 1,151 million, with a net book value of € 705 million.

  An increase or a decrease of 1% in the 1.5% growth rate to infinity would have a positive impact of 4.7% and negative impact of 4% on recoverable value Therefore, the recoverable amount would be € 1,211 million and € 1,101 million.

  An increase and a decrease of 1% in the 14.7% discount rate would have a negative impact of 7.2% and a positive impact of 8.4% on recoverable value. Therefore, the recoverable amount would be € 1,078 million and € 1,236 million.

- For the Sab Wabco Group of CGUs , the recoverable value is estimated at € 579 million, for a net book value of € 204 million.

  An increase and a decrease of 1% in the 1.5% growth rate to infinity would have a positive impact of 4.7% and a negative impact of 4.1% on recoverable value. Therefore, the recoverable amount would be € 608 million and € 554 million.

  An increase and a decrease of 1% in the 14.7% discount rate would have a negative impact of 7.4% and a positive impact of 8.3% on recoverable value. Therefore the recoverable value would be € 542 million and € 622 million.

2. Other intangible assets

	Gross	Accumulated amortisation	Net 31 March 2013	Net 31 March 2012
Research costs	23,124	12,704	10,420	9,498
Patents, trademarks and licences	25,287	20,352	4,935	3,189
Business goodwill	20	5	15	2,561
Other intangible assets	28,252	669	27,583	24,809
TOTAL	**76,683**	**33,730**	**42,953**	**40,057**

At 31 March 2013, intangible assets were broken down as follows:

- research costs: only include development costs incurred as part of research programmes and that comply with the IFRS capitalisation criteria. These costs are amortised over a maximum of 3 years;
- patents, trademarks and licences: this heading primarily includes computer software amortised over a maximum of 10 years and patents acquired as part of the acquisition of Carbone Lorraine's sintered brake business (Balance Sheet to € 1 million net);
- other intangible assets: primarily includes intangible assets identified and measured (in particular, sales agency agreements) as part of the creation of the Amsted Rail-Faiveley LLC joint venture, for an amount of €9 million (US$11.5 million), the value of the customer portfolio contributed by the acquisition of Graham-White Manufacturing Co., for €2.6 million (US$3.4 million) and costs already incurred of €15.3 million corresponding to the rollout of the Moving Forward project, a significant IT system integration programme, launched in 2007, whose objective is to optimise our organisations, industrial processes, equipment and the sharing of technical data within the Faiveley Transport Group.

CHANGE 2012/2013

	Research costs	Patents, trademarks and licences	Business goodwill	Other intangible assets	TOTAL
Gross at 1 April 2012	**20,005**	**21,963**	**2,561**	**25,103**	**69,632**
Change in Group structure	-	-	-	(505)	(505)
Acquisitions	2,713 [(1)]	949	-	3,022	6,684
Disposals	(39)	(152)	-	-	(191)
Other movements	445	2,527	(2,541)	632	1,063 [(2)]
GROSS AT 31 MARCH 2013	23,124 [(3)]	25,287	20	28,252	76,683
Accumulated amortisation at 1 April 2012	**(10,507)**	**(18,774)**	**-**	**(294)**	**(29,575)**
Change in Group structure	-	-	-	-	-
Charges to provision	(2,203)	(1,679)	(4)	(365)	(4,251)
Reversal of provision	-	151	-	-	151
Other movements	6	(50)	(1)	(10)	(55) [(2)]
ACCUMULATED AMORTISATION AT 31 MARCH 2013	(12,704)	(20,352)	(5)	(669)	(33,730)
NET AT 31 MARCH 2013	10,420	4,935	15	27,583	42,953

(1) Development costs capitalised over the period.
(2) Including impact of exchange differences of €551 thousand.
(3) Of which allocated acquisition goodwill; Development costs: €962 thousand.

3. Property, plant and equipment

	Gross	Accumulated depreciation	Net 31 March 2013	Net 31 March 2012
Land	6,122	242	5,880	5,848
Buildings	82,577	58,019	24,558	25,662
Plant and machinery	153,826	125,267	28,559	27,436
Other	40,785	32,997	7,788	8,520
Under construction	4,671	-	4,671	1,446
TOTAL	**287,981**	**216,525**	**71,456**	**68,912**

CHANGE 2012/2013

	Land	Buildings	Plant and machinery	Other	Under construction	Total
Gross at 1 April 2012	**6,086**	**80,562**	**145,405**	**39,593**	**1,446**	**273,092**
Change in Group structure	-	-	(302)	-	-	(302)
Acquisitions	-	1,026	7,258	1,951	3,820	14,055
Disposals	-	-	(790)	(1,020)	(7)	(1,817)
Other movements	36	989	2,255	261	(588)	2,953 [(1)]
GROSS AT 31 MARCH 2013	6,122	82,577	153,826	40,785	4,671	287,981
Accumulated depreciation at 1 April 2012	**(238)**	**(54,900)**	**(117,969)**	**(31,073)**	**-**	**(204,180)**
Change in Group structure	-	-	-	-	-	-
Charges to provision	(5)	(2,922)	(6,474)	(2,692)	-	(12,093)
Reversal of provision	-	-	698	947	-	1,645
Other movements	1	(197)	(1,522)	(179)	-	(1,897) [(1)]
ACCUMULATED DEPRECIATION AT 31 MARCH 2013	(242)	(58,019)	(125,267)	(32,997)	-	(216,525)
NET AT 31 MARCH 2013	5,880	24,558	28,559	7,788	4,671	71,456

(1) Including €1,006 thousand related to net exchange differences.

PROPERTY, PLANT AND EQUIPMENT ACQUIRED UNDER FINANCE LEASES

The following table provides an analysis of property, plant and equipment acquired under finance leases:

	Gross	Accumulated depreciation	Net 31 March 2013	Net 31 March 2012
Software licences	1,079	-	1,079	1,079
Land	1,088	-	1,088	1,088
Buildings	8,353	5,855	2,498	2,620
Plant and machinery	412	412	-	12
TOTAL	**10,932**	**6,267**	**4,665**	**4,799**

FINANCE LEASES

Finance lease contracts relate to property assets and plant and machinery. The future minimum lease payments on non-cancellable leases are shown in the table below:

	31 March 2013	31 March 2012
Less than 1 year	198	227
1 to 5 years	831	863
More than 5 years	678	928
TOTAL FUTURE LEASE PAYMENTS	**1,706**	**2,018**
Less financial interest	(55)	(172)
FINANCIAL LIABILITIES ATTACHED TO FINANCE LEASES	**1,651**	**1,846**

4. Non-current financial assets

	Gross	Provisions	Net 31 March 2013	Net 31 March 2012
Investments in unconsolidated subsidiaries*	930	677	253	245
Investments in associates	-	-	-	-
Other financial investments	5,623	25	5,598	5,538
TOTAL	**6,553**	**702**	**5,851**	**5,783**

** Full detail of unconsolidated subsidiaries is provided in Note G.2.*

CHANGE 2012/2013

	Investments in unconsolidated subsidiaries	Investments in associates	Other financial investments	Total
Gross at 1 April 2012	**922**	**-**	**5,563**	**6,485**
Changes in Group structure	-	-	-	-
Acquisitions	8	-	409	417
Disposals	-	-	(210)	(210)
Other movements*	-	-	(139)	(139)
GROSS AT 31 MARCH 2013	930	-	5,623	6,553
Provisions at 1 April 2012	**(677)**	**-**	**(25)**	**(702)**
Changes in Group structure	-	-	-	-
Charges to provision	-	-	-	-
Reversal of provision	-	-	-	-
Other movements	-	-	-	-
PROVISIONS AT 31 MARCH 2013	(677)	-	(25)	(702)
NET AT 31 MARCH 2013	**253**	**-**	**5,598**	**5,851**

** Translation differences for the period.*

MATURITY DATE OF OTHER FINANCIAL INVESTMENTS

	1 to 5 years	More than 5 years	Total 31 March 2013	Total 31 March 2012
Other non-current investments	151	-	151	154
Loans	142	730	872	1,009
Guaranteed deposits and securities	1,044	216	1,260	1,134
Other financial receivables*	2,897	443	3,340	3,266
TOTAL	**4,234**	**1,389**	**5,623**	**5,563**

** Including receivable re. sale of land to Cyrela (Brazil): €2,899 thousand at 31 March 2013 and €2,840 thousand at 31 March 2012.*

5. Deferred tax

	As at 1 April 2012	Change in Group structure [2]	Impact on income statement	Other movements	Impact on equity	As at 31 March 2013
Provisions for inventory impairment	2,106	153	(353)	38	-	1,945
Provisions for trade and other receivables impairment	2,073	5	(1,749)	3	-	331
Provisions for contracts	9,987	(4)	3,136	195	-	13,314
Provisions for restructuring	467	-	(265)	-	-	202
Provisions for retirement benefits and seniority awards	3,598	-	402	24	-	4,024
Other provisions for liabilities	2,352	-	(211)	31	-	2,172
Other restatements	14,502	(391)	(1,196)	224	-	13,139
Percentage of completion method (IAS 11)	986	-	(607)	10	-	389
Elimination of inventory margins (Intra-Group)	946	-	62	1	-	1,009
Restatements under IAS 32-39 (cash flow)	1,951	-	557	-	(8)	2,500
Leases	(129)	-	244	(2)	-	113
Tax losses carried forward	10,821	-	(602)	172	-	10,391
Tax losses carried forward but not recognised[1]	(6,062)	-	1,372	(23)	-	(4,713)
TOTAL DEFERRED TAX ASSETS (A)	**43,598**	**(237)**	**790**	**673**	**(8)**	**44,816**
Provisions for inventory impairment	237	-	(9)	9	-	238
Provisions for trade and other receivables impairment	10	-	36	-	-	46
Provisions for contracts	2,126	-	1,060	-	-	3,186
Provisions for retirement benefits and seniority awards	132	-	(2)	-	-	131
Other provisions and restatements	10,908	862	1,370	128	-	13,268
Regulated provisions	573	-	1,043	32	-	1,648
Percentage of completion method (IAS 11)	3,165	-	1,793	69	-	5,027
Capitalisation of development costs	2,996	-	384	-	-	3,380
Restatements under IAS 32-39 (cash flow)	1,459	-	(460)	-	(39)	960
Finance leases	482	-	(92)	(2)	-	387
TOTAL DEFERRED TAX LIABILITIES (B)	**22,089**	**862**	**5,122**	**236**	**(39)**	**28,271**
Impact on income statement (a)-(b)+(c)	-	-	**(4,332)**	-	-	-

(1) Amount of deferred tax assets corresponding to tax losses not recognised due to the risk of non-recovery.
(2) See Note D.

On the basis of the budget and business plans, the Group is confident as to the recovery of the net deferred tax balance of €16.5 million.

6. Inventories

The accounting methods used to measure inventories (including the method for determining the cost used) are described in paragraph C.12.

	Gross	Provisions	Net 31 March 2013	Net 31 March 2012
Raw materials	99,990	11,257	88,733	88,040
Work-in-progress	24,425	1,015	23,410	24,279
Finished products	29,514	1,868	27,647	26,133
Merchandise	5,607	943	4,664	5,548
TOTAL	**159,536**	**15,083**	**144,453**	**144,000**

MOVEMENT IN PROVISIONS 2012/2013

	Provisions at 1 April 2012	Change in Group structure	Charges to provisions	Reversals provisions used	Reversals provisions not used	Other movements*	Provisions at 31 March 2013
Raw materials	14,096	-	3,076	(5,298)	(899)	282	11,257
Work-in-progress	750	-	463	(68)	(40)	(90)	1,015
Finished products	1,533	429	917	(480)	(508)	(24)	1,868
Merchandise	918	-	614	(367)	(242)	20	943
TOTAL	**17,297**	**429**	**5,070**	**(6,213)**	**(1,689)**	**189**	**15,083**

** Translation differences for the period.*

During the 2012/2013 financial year, old inventories and inventories that had become totally obsolete were scrapped. Provisions of 70.6% of the value of these inventories had previously been raised. The impact on the income statement for the year ended 31 March 2013 was a loss of €2.2 million.

7. Work-in-progress on projects

At 31 March 2013, net work-in-progress on projects was valued at €98.5 million, compared to €91 million in the previous year. This primarily includes engineering costs on long-term contracts. At each balance sheet date, the Group assesses its recoverable value. In the event of a loss-making contract, writedown is recognised as a reduction of contracts in progress.

Gross work-in-progress on projects was €115 million at 31 March 2013, compared to €98 million at 31 March 2012.

Provisions for losses on completion, presented as a reduction of work-in-progress on projects, totalled €16.8 million at 31 March 2013 as against €6.9 million at 31 March 2012.

8. Current receivables

8.1 TRADE RECEIVABLES

	Gross	Provisions	Net 31 March 2013	Net 31 March 2012
Trade receivables	281,963	4,982	276,981	272,603
Sales of receivables	(92,788)	-	(92,788)	(93,201)
TOTAL	**189,175**	**4,982**	**184,193**	**179,402**

Movements in provisions for doubtful trade receivables

Year ended:	Opening balance	Change in Group structure	Charges to provisions	Reversals provisions used	Reversals provisions not used	Other movements	Closing balance
31 MARCH 2013	**6,193**	**16**	**2,045**	**(444)**	**(2,915)**	**87**	**4,982**
31 March 2012	4,881	200	3,232	(1,211)	(1,024)	115	6,193

A provision for doubtful trade receivables is raised when there is an objective indication of the Group's inability to recover all or part of the amounts due under the terms initially laid down in respect of the transaction. Significant financial difficulties encountered by the debtor, the probability that the debtor will become bankrupt or undergo a financial restructuring or payment default are indications of the impairment of a receivable.

Trade receivables at year end

	Total balance sheet	Receivables not yet due	Total due	Receivables due			
				Less than 60 days	Between 60 and 120 days	Between 120 and 240 days	More than 240 days
Gross value	189,175	158,944	30,231	18,617	4,595	1,827	5,192
Provisions	(4,982)	(1,407)	(3,575)	-	(165)	(1,087)	(2,323)
NET VALUE	**184,193**	**157,537**	**26,656**	**18,617**	**4,430**	**740**	**2,869**

Receivables remaining unpaid beyond the contractual due date represent, in most cases, amounts confirmed by customers but in respect of which payment is subject to the retentions identified when work was inspected.

8.2 OTHER CURRENT ASSETS

	Gross	Provisions	Net 31 March 2013	Net 31 March 2012
Supplier credit notes	775	-	775	1,431
Social security and tax receivables	14,149	-	14,149	10,650
Prepaid expenses	5,002	-	5,002	4,478
Accrued income	454	-	454	515
Other receivables	14,614	117	14,497	1,441
TOTAL	**34,994**	**117**	**34,877**	**18,515**

At 31 March 2013, "Other receivables" included accrued income of €12.3 million (US$15.8 million) relating to the Wabtec compensation.

9. Current financial assets

	31 March 2013	31 March 2012
Guaranteed deposits and securities*	3,801	4,021
Other financial receivables	272	304
Current accounts	29	-
Fair value of derivatives – Assets	5,246	5,003
TOTAL	**9,348**	**9,328**

* *Under our factoring programs, in order to guarantee the repayment of amounts for which the Group may become liable, a non-interest bearing escrow account was created representing 10% of transferred receivables outstanding. This rate may potentially be adjusted in the event of an increase in disallowed receivables (credit notes, disputes, non-payment or discounts).*
The outstanding guarantees at 31 March 2013 was €3,727 thousand and €3,834 thousand at 31 March 2012.

10. Closing cash and cash equivalents (gross amounts)

	31 March 2013	31 March 2012
Short-term investments	22,040	41,085
Cash	152,922	169,166
Bank overdrafts	(7,840)	(2,405)
Invoices factored and not guaranteed	(1,209)	(1,023)
TOTAL	**165,913**	**206,823**

The Group does not hold a share portfolio but deposits excess cash balances. At 31 March 2013, it had certificates of deposits of €8.2 million and fixed-term deposits of €13.8 million. These deposits meet the criteria specified by IAS 7, which enables them to be classified as cash equivalents.

For local regulatory reasons, the cash and cash equivalents held by the Brazilian subsidiary (€4.4 million at the end of March 2013), may not be pooled with the Group's other cash resources, or be paid out as dividends until losses carried forward are not settled. As an exception, these cash balances are invested locally in certificates of deposits with a maturity exceeding 3 months. However, they may be drawn down at any time and do not bear any capital risk.

11. Equity

11.1 SHARE CAPITAL

At 31 March 2013, the Company's share capital totalled €14,614,152 divided into 14,614,152 shares of €1 each, fully paid up. Shares registered in the name of the same shareholder for at least two years have double voting rights.

As regards its capital management, the Faiveley Transport Group's main objective is to ensure the retention of a good credit risk rating and sound capital ratios in order to facilitate its activity and maximise value for its shareholders.

The Group manages its capital by ensuring that it maintains three financial ratios within the limits defined by its credit agreements (see Note E.13).

The Group manages its capital structure and makes adjustments depending on changes in economic conditions. With a view to maintaining or amending its capital structure, the Group may adjust the payment of dividends to its shareholders, redeem part of its capital or issue new shares. The management objectives, policies and procedures remained unchanged in 2013 and 2012.

Composition of the share capital

	Nominal value	31 March 2012	New shares issued	Double voting rights granted	31 March 2013
Ordinary	1	6,661,370	-	(68,750)	6,592,620
Redeemed	-	-	-	-	-
With preferred dividends	-	-	-	-	-
With double voting rights	1	7,952,782	-	68,750	8,021,532
TOTAL	**1**	**14,614,152**	**-**	**-**	**14,614,152**

Breakdown of share capital and voting rights

	31 March 2013		31 March 2012	
Main shareholders	% of capital	% of voting rights	% of capital	% of voting rights
François Faiveley Group and the Faiveley family	52.62	67.09	52.62	66.70
Treasury shares	2.61	-	2.93	-
Registered securities*	5.99	7.44	6.26	8.08
General public	38.78	25.47	38.19	25.22

** Excluding treasury shares and Faiveley Family.*

Treasury shares

At 31 March 2013, Faiveley Transport held 382,050 treasury shares, including 369,658 in nominative form and 12,392 through its liquidity contract.

Given the purchase cost of the Faiveley Transport shares acquired to service stock option, share subscription or free share allocation plans, the exercise prices granted and the price of the Faiveley Transport share at 31 March 2013, applied to unallocated options, the unrealised capital loss on treasury shares was €4.3 million.

11.2 TRANSLATION DIFFERENCES

Translation differences comprise mainly the gains and losses resulting from the translation of the equity of subsidiaries whose functional currency is other than the euro.

Breakdown of translation differences by currency

	31 March 2013	31 March 2012
Thai Baht	15	17
Swedish Krona	1,490	123
Czech Koruna	1,506	2,028
US Dollar	3,822	1,951
Australian Dollar	1,104	810
Hong Kong Dollar	(585)	(481)
Pound Sterling	(3,422)	(2,828)
Brazilian Real	(1,430)	(903)
Chinese Yuan	4,561	3,162
Indian Rupee	(4,010)	(3,485)
Korean Won	(81)	(381)
Polish Zloty	(179)	(163)
Other	(9)	(48)
TOTAL	**2,782**	**(198)**

11.3 RESERVES AND NET PROFIT

	31 March 2013	31 March 2012
Legal reserve	1,461	1,440
Distributable reserves	(1,886)	(1,886)
Reserves for derivative instruments	(2,207)	(2,380)
Other reserves	364,779	329,064
Net profit – Group share	59,277	47,428
GROUP RESERVES AND NET PROFIT	**421,424**	**373,666**

11.4 MINORITY INTERESTS

The minority interests break down as follows:

	31 March 2013	31 March 2012
Shanghai Faiveley Railway Technology	16,505	14,806
Amsted Rail – Faiveley LLC	15,506	15,541
Other minority interests	778	655
TOTAL	**32,789**	**31,002**

11.5 FREE PERFORMANCE-BASED SHARES

a) Share purchase option plans

In 2005, Faiveley Transport implemented a share purchase option plan for the benefit of key Faiveley Transport Group Management (excluding the managers who invested in Faiveley Management SAS). This plan was approved by the Extraordinary General Meeting of 27 September 2005 for a period of thirty-eight months.

In order to meet its future obligation to transfer these shares to the plan beneficiaries, Faiveley Transport began a share buyback programme at the end of 2005. Should the share purchase options be exercised, they would give rise to the purchase of existing Faiveley Transport ordinary shares.

As purchase options are exercisable from the second anniversary of their allocation by the Chairman of the Management Board, subject to the beneficiary remaining employed by the Faiveley Transport Group on the exercise date and his/her acceptance of options terms and conditions, 259,044 options have been exercised to date.

Given the departure of certain beneficiaries and options exercised since the plans were implemented by the Management Board, at 31 March 2013 56,996 options remained exercisable by 10 beneficiaries.

MAIN FEATURES OF THE CURRENT PURCHASE OPTION PLAN

Options granted	n°1	n°2	n°3	n°4	n°5	n°6	n°7	n°8	n°9	n°10
Date of Management Board meeting	24/11/2005	29/12/2005	22/06/2006	25/10/2006	15/11/2006	01/12/2006	02/04/2007	19/02/2008	29/03/2008	17/07/2008
Exercise price *(in €)**	26.79	29.75	30.48	33.77	34.13	34.01	42.80	32.31	34.08	40.78
Date from which options can be exercised	24/11/2007	29/12/2007	22/06/2008	25/10/2008	15/11/2008	01/12/2008	02/04/2009	19/02/2010	29/03/2010	17/07/2010
Expiry date	23/11/2012	28/12/2012	21/06/2013	24/10/2013	14/11/2013	30/11/2013	01/04/2014	18/02/2015	28/03/2015	16/07/2015
Initial number of beneficiaries	38	1	6	1	1	2	5	4	3	1
Adjusted initial number	30	-	5	-	-	-	-	-	-	-
Total number of options granted	221,760	6,720	31,360	6,720	4,480	11,200	26,880	26,880	13,440	22,600
Total number of options exercised	17,720	6,720	21,958	6,720	4,480	7,456	11,220	20,560	4,850	-
Total number of options cancelled	47,040	-	4,480	-	-	-	-	-	4,480	-
Number of options remaining to be exercised at 31 March 2013	**-**	**-**	**4,922**	**-**	**-**	**3,744**	**15,660**	**5,960**	**4,110**	**22,600**
Number of shares that may be subscribed by members of the Management Board and Supervisory Board	6,720	-	-	-	-	-	-	-	-	-
Number of shares that could be subscribed by members of the Executive Committee	13,440	-	-	-	-	-	-	-	-	22,600
Conditions of exercise	100% of options exercisable as from 24/11/2007	100% of options exercisable as from 29/12/2007	100% of options exercisable as from 22/06/2008	100% of options exercisable as from 25/10/2008	100% of options exercisable as from 15/11/2008	100% of options exercisable as from 01/12/2008	100% of options exercisable as from 02/04/2009	100% of options exercisable as from 19/02/2010	100% of options exercisable as from 29/03/2010	100% of options exercisable as from 17/07/2010

** The exercise price is equal to the average price of the 20 trading days preceding the date of the Management Board meeting that decided to grant the options, less a discount of 5%.*

b) Share subscription option plan

The Combined General Meeting of Faiveley Transport, held on 22 September 2009, authorised the Management Board to grant share purchase and/or subscription options, up to a maximum of 1% of the share capital.

↗ MAIN FEATURES OF THE PLAN

Subscription options granted	Plan of 22/09/2009
Date of authorisation by the AGM	22/09/2009
Date of Management Board meeting	23/11/2009
Exercise price *(in €)* (1)	54.91
Exercise period	22/11/2013
	22/11/2017
Initial number of beneficiaries	15
Total number of options granted	144,000
Total number of options exercised	-
Total number of options cancelled at 31 March 2013	21,000
Number of options remaining to be exercised at 31 March 2013	**123,000**
Number of shares that may be subscribed by members of the Management Board and the Supervisory Board	45,500
Number of shares that could be subscribed by members of the Executive Committee(2)	55,000
Conditions of exercise	100% of options exercisable as from 22/11/2013

(1) The exercise price is equal to the average price of the twenty trading days preceding the date of the Management Board meeting that decided to grant the options, with no discount.
(2) Excluding members of the Management Board.

↗ PLAN VALUATION

Subscription options granted	Plan of 22/09/2009
Initial fair value of the plan *(€ millions)*	2.8
Charge for the year *(€ millions)*	0.7

c) Free performance-based share allocation plan

PLAN AUTHORISED BY THE GENERAL MEETING OF 13 SEPTEMBER 2010

Faiveley Transport's Combined General Meeting of 13 September 2010 authorised the Management Board to allocate free performance-based shares, either existing or to be issued, within the limit of 1% of the share capital. The free shares are subject to a retention period of a minimum of two years after their vesting date.

The performance criteria have been set for the 2010/2011 and 2011/2012 financial years.

The criteria used to reflect wealth creation for the shareholders were:

- growth in operating profit: growth of 4% per year in profit from recurring operations, before non-recurring items; and
- cash flow generation (debt reduction): cumulative cash flow from operating activities for 2010/2011 and 2011/2012 to represent 85% of the operating profit target.

The Management Board of the Company endorsed the partial achievement of performance criteria:

- profit from recurring operations for the year to 31 March 2012 was €94.7 million, as against a target of €128.6 million;
- cumulative cash flow from operating activities for the financial years 2010/2011 and 2011/2012 totalled €221.1 million, as against a target of €214 million.

PLAN AUTHORISED BY THE GENERAL MEETING OF 14 SEPTEMBER 2012

The Combined General Meeting of 14 September 2012 delegated the Management Board powers for the allocation free performance shares of the Company, either new or already issued, within the limit of 1% of the share capital. These shares must be retained for a minimum period of 2 years.

The performance criteria have been set for the 2012/2013 and 2013/2014 financial years.

The criteria used to reflect wealth creation for the shareholders were:

- growth in operating profit: average growth of 4% per year in profit from recurring operations and
- cash flow generation (debt reduction): cumulative cash flow from operating activities for 2012/2013 and 2013/2014 to represent 85% of the operating profit target.

In the event performance criteria are fully achieved or exceeded, each beneficiary will receive 100% of the number of shares allocated to them.

In the event performance criteria are partly achieved, each beneficiary will receive a percentage of the number of shares allocated to them:

- criteria of operating profit growth:
  - 0% if growth is nil or negative,
  - *pro-rata* for average growth of between 0% and 4% per year.
- criteria of cash flow generation:
  - 0% if generation is nil or negative,
  - *pro-rata* for cash flow from operating activities of between 0% and 100% of the target.

MAIN FEATURES OF THESE PLANS

Allocation of free shares	Plans of 14/09/2011 n° 1	Plans of 14/09/2011 n° 2	Plan of 14/09/2012 n° 3
Date of authorisation by the AGM	13/09/2010	13/09/2010	14/09/2012
Date of Management Board meeting	03/12/2010	24/02/2011	24/10/2012
Date ownership of free shares transferred	03/12/2012	24/02/2013	24/10/2014
Vesting date of free shares	03/12/2014	24/02/2015	24/10/2016
Initial number of beneficiaries	38	5	1
Total number of attributable shares	64,500	5,200	10,000
Total number of shares lapsed	37,850	4,200	-
Total number of shares vested since inception	**26,650**	**1,000**	**N/A**
of which free shares allocated to members of the Management Board and the Supervisory Board	7,900	-	-
of which free shares allocated to members of the Executive Committee*	8,750	-	10,000
Total number of shares unexercised at 31 March 2013	**-**	**-**	**10,000**
Terms and conditions of exercise	50% of shares have been vested at 03/12/2012	50% of shares have been vested at 24/02/2013	Determination of % of shares finally allocated at 24/10/2014

** Excluding members of the Management Board.*

PLANS VALUATION

Allocation of free shares	Plans of 14/09/2010	Plan of 14/09/2012
Initial fair value of the plan *(€ millions)*	1.7	0.2
Charge for the year *(€ millions)*	0.3	0.1

d) Free share allocation plan

FREE SHARE ALLOCATION PLAN AUTHORISED BY THE GENERAL MEETING OF 14 SEPTEMBER 2011

The Combined General Meeting of 14 September 2011 delegated the Management Board powers for the allocation free of charge of ordinary shares of the Company, either new or already issued, within the limit of 1% of the share capital on 14 September 2011.

At its meeting held on 4 January 2012, the Management Board decided to implement this delegation and to allocate free shares. This decision was made as part of an employee shareholding plan aimed at a broader population of executives. The programme provides that an employee holding shares in the Company in a personal capacity will be granted two free shares for every share held, not exceeding a limit set for each level of management.

FREE SHARE ALLOCATION PLAN AUTHORISED BY THE GENERAL MEETING OF 14 SEPTEMBER 2012

The Combined General Meeting of 14 September 2012 delegated the Management Board powers for the allocation free of charge of ordinary shares of the Company, either new or already issued, within the limit of 1% of the share capital on 14 September 2012.

At its meeting held on 3 December 2012, the Management Board decided to implement this delegation and to allocate free shares. This decision was made as part of an employee shareholding plan aimed at a broader population of executives. The programme provides that an employee holding shares in the Company in a personal capacity will be granted two free shares for every share held, not exceeding a limit set for each level of management.

MAIN FEATURES OF THESE PLANS

Allocation of free shares	Plan of 14/09/2011	Plan of 14/09/2012
Date of authorisation by the AGM	14/09/2011	14/09/2012
Date of Management Board meeting	05/03/2012	15/01/2013
Date ownership of free shares transferred	05/03/2014	15/01/2015
Vesting date of free shares	05/03/2016	15/01/2017
Initial number of beneficiaries	151	179
Total number of attributable shares	79,224	72,386
Total number of shares lapsed	2,916	-
Total number of shares vested since inception	N/A	N/A
Total number of shares unexercised at 31 March 2013	**76,308**	**72,386**
of which free shares granted to members of the Management Board and the Supervisory Board	6,400	4,360
of which free shares granted to members of the Executive Committee*	9,600	7,800
Terms and conditions of exercise	Allocation subject to personal investment by beneficiaries, with two free shares granted for every share bought	Allocation subject to personal investment by beneficiaries, with two free shares granted for every share bought

** Excluding members of the Management Board.*

PLANS VALUATION

Free share allocation	Plan of 14/09/2011	Plan of 14/09/2012
Initial fair value of the plan *(€ millions)*	2.3	1.8
Charge for the year *(€ millions)*	1.2	0.2

12. Provisions for liabilities and charges

12.1 NON-CURRENT PROVISIONS

Change 2012/2013

	As at 1 April 2012	Change in Group structure	Charges to provisions	Reversals provisions used	Reversals provisions not used	Other movements*	As at 31 March 2013
Provisions for retirement and other employee benefits	32,829	-	2,194	(3,586)	(615)	(269)	30,553
Provisions for charges	3,384	-	-	(1,069)	(11)	151	2,455
TOTAL	**36,213**	**-**	**2,194**	**(4,655)**	**(626)**	**(118)**	**33,008**

** Including exchange differences of €33 thousand and reclassifications of €(151) thousand.*

12.2 PROVISIONS FOR RETIREMENT BENEFITS

(All amounts in these notes are in millions of Euros unless indicated otherwise)

Charges for the year in respect of defined contribution schemes totalled €22.5 million for the year to 31 March 2013, compared to €20.6 million for the year to 31 March 2012.

Summary of provisions

The provisions as at 31 March 2013, of those countries with the most significant commitments are shown in the following table:

	31 March 2013					31 March 2012
(€ millions)	France	Germany	United Kingdom	Other countries	Total	Total
Post-employment benefits	6.3	13,8	4.9	2.7	27.7	29.5
Provisions for other long-term benefits	0.4	1.3	-	1.3	3.0	2.8
TOTAL	**6.7**	**15.1**	**4.9**	**4.0**	**30.7**	**32.3**

Information regarding the actuarial liability

MOVEMENTS IN ACTUARIAL LIABILITY BY GEOGRAPHIC REGION

	31 March 2013					31 March 2012
	France	Germany	United Kingdom	Other countries	Total	Total
Actuarial liability at start of period	8.2	15.0	50.7	4.0	77.9	70.3
Cost of services rendered	0.6	-	0.1	-	0.7	0.7
Interest on actuarial liability	0.3	0.6	2.4	0.1	3.4	3.6
Employee contributions	-	-	-	-		-
Benefits paid	(0.6)	(1.0)	(3.2)	(0.3)	(5.1)	(3.7)
Settlement of the liability	-	-	-	(0.4)	(0.4)	-
Scheme amendments	-	-	-	-	-	-
Acquisitions/Transfers/Companies joining the Group	-	-	-	-	-	-
Actuarial (gains)/losses	0.4	1.1	4.8	0.3	6.6	4.1
of which experience (gains)/losses	*(0.2)*	*(0.6)*	*(1.7)*	-	*(2.5)*	*0.1*
Exchange differences	-	-	(0.9)	-	(0.9)	2.8
Other	-	-	-	-	-	-
ACTUARIAL LIABILITY AT END OF PERIOD	**8.9**	**15.7**	**54.0**	**3.8**	**82.3**	**77.9**
Of which:						
Funded schemes	-	-	*54.0*	*0.5*	*54.5*	*51.5*
Unfunded schemes	*8.9*	*15.7*	-	*3.2*	*27.8*	*26.4*

MOVEMENTS IN PLAN ASSETS BY GEOGRAPHIC REGION

	31 March 2013					31 March 2012
	France	Germany	United Kingdom	Other countries	Total	Total
Fair value of assets at start of period	-	-	44.2	0.5	44.7	39.8
Employer contributions	-	-	1.8	0.1	1.9	1.7
Employee contributions	-	-	-	-	-	-
Benefits paid	-	-	(3.2)	-	(3.2)	(1.8)
Settlement of the liability	-	-	-	(0.1)	(0.1)	-
Expected financial revenue	-	-	2.0	-	2.1	2.1
Actuarial gains/(losses)	-	-	3.8	-	3.8	0.5
of which experience gains/(losses)	-	-	*3.8*	-	*3.8*	*0.5*
Acquisitions/Transfers/Companies joining the Group	-	-	-	-	-	-
Exchange differences	-	-	(0.8)	-	(0.8)	2.4
FAIR VALUE OF ASSETS AT END OF PERIOD	**-**	**-**	**47.9**	**0.4**	**48.4**	**44.7**

The actual return on investments was €5.9 million in the year to 31 March 2013 (compared to €2.6 million for the year to 31 March 2012).

Contributions in respect of defined benefit schemes in the United Kingdom and India were estimated to total €1.8 million for 2013.

The expected return on investments is estimated at €2 million in 2013. A one-point increase in the assumed percentage rate of return would generate €0.5 million in additional income.

PROVISION FOR RETIREMENT COMMITMENTS

	31 March 2013					31 March 2012
	France	Germany	United Kingdom	Other countries	Total	Total
Financial cover	8.9	15.7	6.0	3.3	33.9	33.1
Actuarial gains (losses) not recognised	(1.5)	(1.9)	(1.7)	(0.6)	(5.7)	(3.1)
Past service cost not recognised	(1.1)	-	-	-	(1.1)	(1.2)
Impact of capping of assets	-	-	0.6	-	0.6	0.6
NET PROVISION	**6.3**	**13.8**	**4.9**	**2.7**	**27.7**	**29.4**
of which provisions for commitments	*6.3*	*13.8*	*4.9*	*2.7*	*27.7*	*29.4*
of which surplus plan assets	-	-	-	-	-	-

PAST DATA RELATING TO FINANCIAL COVER AND ACTUARIAL EXPERIENCE DIFFERENCES FOR THE CURRENT AND THE PREVIOUS FOUR FINANCIAL YEARS

	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009
	Total	Total	Total	Total	Total
Discounted value of commitments	82.3	77.9	70.3	72.3	55.4
Fair value of scheme assets	48.4	44.7	39.8	36.3	26.8
FUNDING SHORTFALL	**33.9**	**33.2**	**30.5**	**36.0**	**28.5**
Experience gains/(losses) in relation to liabilities	*2.5*	*(0.1)*	*1.8*	*1.1*	*(0.1)*
Experience gains/(losses) in relation to assets	*3.8*	*0.5*	*(0.1)*	*6.2*	*(5.3)*
Experience gains/(losses) in relation to liabilities, as % of commitment	*3%*	*0%*	*3%*	*2%*	*0%*
Experience gains/(losses) in relation to assets, as % of plan assets	*8%*	*1%*	*0%*	*17%*	*(20%)*

Income statement items

BREAKDOWN OF NET PENSION COSTS

	31 March 2013					31 March 2012
	France	Germany	United Kingdom	Other countries	Total	Total
Cost of services rendered	0.6	-	0.1	-	0.7	0.7
Interest on actuarial liability	0.3	0.6	2.4	0.1	3.4	3.6
Expected financial income	-	-	(2.0)	-	(2.0)	(2.1)
Amortisation of actuarial gains/losses	-	-	-	-	-	-
Amortisation of past service cost	0.1	-	-	-	0.1	0.1
Reduction/liquidation/transfer of the scheme	-	-	-	(0.2)	(0.2)	-
Impact of capping of assets	-	-	-	-	-	-
Other	-	-	-	-	-	-
NET CHARGE	**1.0**	**0.6**	**0.5**	**(0.1)**	**2.0**	**2.3**

Actuarial assumptions

The actuarial assumptions used to measure commitments take into account the demographic and financial conditions specific to each country or Group company.

Discount rates are determined by reference to the yields on AAA bonds with similar durations to those of the commitments as at the measurement date.

The assumptions used for those countries with the most significant commitments are shown in the following table:

	31 March 2013			31 March 2012		
	France	Germany	United Kingdom	France	Germany	United Kingdom
Discount rate	2.85%	2.85%	4.25%	3.85%	3.85%	4.80%
Inflation rate	2.00%	2.00%	3.30%	2.00%	2.00%	3.15%
Average salary increase rate	2.50%	1.57%	3.65%	3.00%	1.60%	4.65%
Expected return on investments	NA	NA	4.58%	NA	NA	4.54%

- The sensitivity of commitments at 31 March 2013 and the cost of services rendered for the next year to a 25 basis point change in the discount rate are summarised as follows:

(€ millions)	0.25% increase in discount rate	0.25% decrease in discount rate
Effect on the value of commitments	(2.899)	3.068
Effect on the cost of services rendered	(0.032)	0.033

- The sensitivity of commitments at 31 March 2013 and the cost of services rendered for the next year to a 25 basis point change in the salary increase rate are summarised as follows:

(€ millions)	0.25% increase in discount rate	0.25% decrease in discount rate
Effect on the value of commitments	0.325	(0.312)
Effect on the cost of services rendered	0.032	(0.031)

The expected long-term rate of return on plan assets in the United Kingdom, Belgium and India was determined by taking into account the structure of the investment portfolio.

Currently the investment portfolio contains no Group securities.

The structure of the investment portfolio is as follows:

	31 March 2013	31 March 2012
Shares	49.6%	47.8%
Bonds	48.2%	49.4%
Other assets	2.2%	2.8%
TOTAL	**100.0%**	**100.0%**

- The expected return for each category of assets is as follows:

	31 March 2013	31 March 2012
Shares	6.0%	5.7%
Bonds	3.2%	3.5%
Other assets	1.7%	4.3%
TOTAL	**4.6%**	**4.6%**

12.3 CURRENT PROVISIONS

Change 2012/2013

	As at 1 April 2012	Change in Group structure	Charges to provisions	Reversals: provisions used	Reversals: provisions not used	Other movements	As at 31 March 2013
Provisions for guarantees, after sales service and penalties	70,946	(12)	44,439	(28,475)	(12,552)	918	75,264
Provisions for losses on completion	1,407	-	-	-	-	955	2,362
TOTAL CONTRACT PROVISIONS	**72,353**	**(12)**	**44,439**	**(28,475)**	**(12,552)**	**1,873**	**77,626**
Provisions for restructuring	1,628	-	122	(976)	-	(102)	672
Provisions for other risks	6,372	-	477	(1,229)	(60)	52	5,612
TOTAL OTHER PROVISIONS	**8,000**	**-**	**599**	**(2,205)**	**(60)**	**(50)**	**6,284**
TOTAL	**80,353**	**(12)**	**45,038**	**(30,680)**	**(12,612)**	**1,823***	**83,910**

* *Including exchange differences of €969 thousand and reclassifications of €854 thousand.*

Current provisions primarily relate to provisions for guarantees and after-sales service granted to our customers and litigations and claims on completed contracts. The methods underlying the recognition of these provisions are specified in Note C.15.2.

Provisions for losses on completion are shown here for the amount not allocated as a reduction of work-in-progress on projects.

The amount of provisions for losses on completion in reduction of work-progress on projects (note E.7) is €16.8 million at 31 March 2013. The total amount of provisions for losses on completion is thus €19.2 million at 31 March 2013.

13. Borrowings and financial debt

Under the credit agreements, the Faiveley Transport Group must comply with the following four financial conditions:

- leverage ratio (Consolidated Net Debt/Consolidated EBITDA) must not exceed 2.5 at 31 March 2013. At this date, the ratio was 1.47;
- gearing ratio (Consolidated Net Debt/Consolidated Equity): must not exceed 1.50 at 31 March 2013. At this date the ratio was 0.31;
- total bank guarantees must not exceed 22% of the order book. At 31 March 2013, they represented 13.5%;
- "Consolidated EBITDA/Cost of Consolidated Net Debt" must not be less than 3.5. At 31 March 2013, the ratio was 11.6.

Non-compliance with one of these covenants may result in the debt becoming immediately repayable.

13.1 BREAKDOWN AND MATURITY OF NON-CURRENT AND CURRENT FINANCIAL DEBT

	2012/2013				
	Current portion	Non-current portion			
	Under 1 year	1 to 5 years	Over 5 years	Total	2011/2012
Borrowings	36,857	257,675	55,667	350,199	425,895
Finance leases	185	796	670	1,651	1,846
Employee profit sharing	65	-	-	65	65
Various other financial debt	7	-	-	7	65
Guarantees and deposits received	56	34	-	90	56
Credit current accounts	141	-	-	141	2,112
Bank overdrafts	7,840	-	-	7,840	2,405
Short-term facilities (credit balance)	-	-	-	-	-
Invoices factored – not guaranteed	1,209	-	-	1,209	1,023
TOTAL EXCLUDING FAIR VALUE OF DERIVATIVES	**46,360**	**258,505**	**56,337**	**361,202**	**433,467**
Fair market value of derivatives – liabilities	14,674	1,566	-	16,240	14,818
TOTAL	**61,034**	**260,071**	**56,337**	**377,442**	**448,285**

13.2 BREAKDOWN BY CURRENCY OF NON-CURRENT AND CURRENT FINANCIAL DEBT

	Total 31 March 2013	Total 31 March 2012
Euro	291,848	411,484
US Dollar	85,214	27,366
Brazilian Real	141	211
Chinese Yuan	205	9,181
Indian Rupee	23	20
Czech Koruna	11	20
Russian Rouble	-	3
TOTAL	**377,442**	**448,285**

13.3 BREAKDOWN BY INTEREST RATE OF NON-CURRENT AND CURRENT FINANCIAL DEBT

Before implementing hedge instruments

	At 31 March 2013	At 31 March 2012
Fixed rate financial debt	60,222	8,120
Variable rate financial debt	300,980	425,347
TOTAL FINANCIAL DEBT*	**361,202**	**433,467**

** Excluding fair market value of derivatives – liabilities.*

After implementing hedge instruments

	At 31 March 2013	At 31 March 2012
Fixed rate financial debt	232,898	227,418
Variable rate financial debt	128,304	206,049
TOTAL FINANCIAL DEBT*	**361,202**	**433,467**

** Excluding fair market value of derivatives – liabilities.*

13.4 CALCULATION OF NET FINANCIAL DEBT

	At 31 March 2013	At 31 March 2012
Non-current financial debt	314,842	352,865
Current financial debt	37,311	77,174
Bank overdrafts	7,840	2,405
Invoices factored – not guaranteed	1,209	1,023
TOTAL FINANCIAL DEBT (A)	**361,202**	**433,467**
Receivables from investments	-	-
Loans	1,146	1,302
Guarantees, deposits and securities paid	5,067	5,155
Various other receivables	3,468	3,405
Current accounts	29	-
TOTAL FINANCIAL RECEIVABLES (B)	**9,710**	**9,862**
Cash and cash equivalents (c)	174,958	210,247
NET FINANCIAL DEBT (A-B-C)	**176,534**	**213,358**
Equity	559,860	505,145
Net debt/equity	**31.5%**	**42.2%**
Sales	987,706	900,523
Net debt/sales	**17.9%**	**23.7%**

In economic terms, net debt should be reduced by the value of treasury shares held for sale as part of the share purchase/subscription option and free share allocation plans.

The liquidation value of these shares was €14.9 million at 31 March 2013, given the exercise prices granted for share purchase/subscription options and the year-end share price for shares not allocated to these plans.

For accounting purposes, the value of treasury shares held is deducted from equity under IFRS; this amounted to €19.2 million at 31 March 2013 and €21 million at 31 March 2012.

14. Financial instruments and financial risk management

14.1 FINANCIAL INSTRUMENTS AT 31 MARCH 2013

Main valuation methods used for financial assets and liabilities:

- since most of Faiveley Transport's financial debt bears a variable rate, its fair value (rounded to the nearest credit spread) is equal to nominal values supplemented by interest not yet due;
- due to their short maturity profile, the fair value of trade and other receivables, other current financial assets, current financial debt, cash and cash equivalents and short-term investments is deemed identical to their book value.

Au 31 March 2013	Book value	Breakdown by category					Fair value classification of instruments(1)		
		Non financial assets and liabilities	Loans, receivables and liabilities	At fair value through profit and loss	Available for sale financial assets	Fair value	Level 1	Level 2	Level 3
Shareholdings in unconsolidated subsidiaries	253	-	-	-	253	253	-	-	253
Other non-current financial investments	5,598	-	5,598	-	-	5,598	-	-	-
TOTAL NON-CURRENT ASSETS	**5,851**	**-**	**5,598**	**-**	**253**	**5,851**	**-**	**-**	**253**
Trade receivables	184,193	6,646	177,547	-	-	184,193	-	-	-
Other current assets	34,877	6,255	28,622	-	-	34,877	-	-	-
Current financial assets	4,102	-	4,102	-	-	4,102	-	-	-
Fair value of derivatives – Assets	5,246	-	-	5,246	-	5,246	-	5,246	-
Short-term investments	22,035	-	-	22,035	-	22,035	22,035	-	-
Cash	152,922	-	-	152,922	-	152,922	-	-	-
TOTAL CURRENT ASSETS	**403,375**	**12,901**	**210,271**	**180,203**	**-**	**403,375**	**22,035**	**5,246**	**-**
TOTAL ASSETS	**409,226**	**12,901**	**215,869**	**180,203**	**253**	**409,226**	**22,035**	**5,246**	**253**
Non-current borrowings and financial debt	314,841	-	314,841	-	-	314,841	-	-	-
TOTAL NON-CURRENT LIABILITIES	**314,841**	**-**	**314,841**	**-**	**-**	**314,841**	**-**	**-**	**-**
Current borrowings and financial debt	46,360	-	46,360	-	-	46,360	-	-	-
Fair value of derivatives – Liabilities	16,240	-	-	16,240	-	16,240	-	11,360	4,880(2)
Current liabilities	257,872	20,033	237,839	-	-	257,872	-	-	-
TOTAL CURRENT LIABILITIES	**320,472**	**20,033**	**284,199**	**16,240**	**-**	**320,472**	**-**	**11,360**	**4,880**
TOTAL LIABILITIES	**635,313**	**20,033**	**599,040**	**16,240**	**-**	**635,313**	**-**	**11,360**	**4,880**

(1) Revised IFRS 7 requires that fair value measurements be classified on three levels. The levels of fair value hierarchy reflect the significance of data used for the measurements:

- *level 1: prices (unadjusted) of identical assets or liabilities listed on active markets;*
- *level 2: data other than listed prices covered by Level 1, that can be noted for the asset or liability concerned, either directly (i.e. prices) or indirectly (i.e. data derived from prices);*
- *level 3: data relating to the asset or liability, not based on observable market data (unobservable data).*

(2) This amount corresponds to the financial commitment recognised as part of the recognition of put options held by minority shareholders in Nowe GmbH and Faiveley Transport Schweiz AG (formerly called Urs Dolder AG) at 31 March 2013.

14.2 FINANCIAL INSTRUMENTS AT 31 MARCH 2012

At 31 March 2012	Book value	Breakdown by category: Non financial assets and liabilities	Breakdown by category: Loans, receivables and liabilities	Breakdown by category: At fair value through profit and loss	Breakdown by category: Available for sale financial assets	Fair value	Fair value classification of instruments[(1)]: Level 1	Fair value classification of instruments[(1)]: Level 2	Fair value classification of instruments[(1)]: Level 3
Shareholdings in unconsolidated subsidiaries	245	-	-	-	245	245	-	-	245
Other non-current financial investments	5,538	-	5,538	-	-	5,538	-	-	-
TOTAL NON-CURRENT ASSETS	**5,783**	**-**	**5,538**	**-**	**245**	**5,783**	**-**	**-**	**245**
Trade receivables	179,402	5,311	174,091	-	-	179,402	-	-	-
Other current assets	18,515	7,865	10,650	-	-	18,515	-	-	-
Current financial assets	4,325	-	4,325	-	-	4,325	-	-	-
Fair value of derivatives – Assets	5,003	-	-	5,003	-	5,003	-	5,003	-
Short-term investments	41,080	-	-	41,080	-	41,080	41,080	-	-
Cash	169,167	-	-	169,167	-	169,167	-	-	-
TOTAL CURRENT ASSETS	**417,492**	**13,176**	**189,066**	**215,250**	**-**	**417,492**	**41,080**	**5,003**	**-**
TOTAL ASSETS	**423,275**	**13,176**	**194,604**	**215,250**	**245**	**423,275**	**41,080**	**5,003**	**245**
Non-current borrowings and financial debt	352,865	-	352,865	-	-	352,865	-	-	-
TOTAL NON-CURRENT LIABILITIES	**352,865**	**-**	**352,865**	**-**	**-**	**352,865**	**-**	**-**	**-**
Current borrowings and financial debt	80,602	-	80,602	-	-	80,602	-	-	-
Fair value of derivatives – Liabilities	14,818	-	-	14,818	-	14,818	-	7,643	7,175 [(2)]
Current liabilities	245,444	20,747	224,697	-	-	245,444	-	-	-
TOTAL CURRENT LIABILITIES	**340,864**	**20,747**	**305,299**	**14,818**	**-**	**340,864**	**-**	**7,643**	**7,175**
TOTAL LIABILITIES	**693,729**	**20,747**	**658,164**	**14,818**	**-**	**693,729**	**-**	**7,643**	**7,175**

(1) Revised IFRS 7 requires that fair value measurements be classified on three levels. The levels of fair value hierarchy reflect the significance of data used for the measurements:

- *level 1: prices (unadjusted) of identical assets or liabilities listed on active markets;*
- *level 2: data other than listed prices covered by Level 1, that can be noted for the asset or liability concerned, either directly (i.e. prices) or indirectly (i.e. data derived from prices);*
- *level 3: data relating to the asset or liability, not based on observable market data (unobservable data).*

(2) This amount corresponds to the financial commitment recognised as part of the recognition of put options held by minority shareholders in Nowe GmbH and Faiveley Transport Schweiz AG (formerly called Urs Dolder AG) at 31 March 2012.

14.3 FINANCIAL RISK MANAGEMENT

The Faiveley Transport Group's cash policy is based on overall financial risk management principles and provides specific strategies for areas such as exchange risk, interest rate risk, raw materials risk, credit risk and liquidity risk.

The Group also uses derivative instruments, mainly forward purchases and sales of currencies, interest rate swaps or caps and exchange rate contracts or raw material swaps. The aim of these instruments is to manage the exchange, interest rate and raw material risks associated with the Group's activities and financing.

The Group's policy is not to enter into derivative instruments for speculative purposes.

The Supervisory Board of Faiveley Transport examines risk management principles as well as policies covering certain specific fields such as exchange risk, interest rate risk, raw materials risk, credit risk and liquidity risk. These policies are summarised below.

The market values of interest rate and foreign exchange derivative instruments have been measured based on year-end market prices. They have been appraised by an independent expert.

14.4 MARKET RISKS

a) Exchange risks

The Group operates in foreign countries and is therefore exposed to exchange risk as a result of its exposure to a number of currencies.

The major currencies concerned are the US Dollar, the Hong-Kong Dollar, the Czech Koruna, the Swedish Krona, the Pound Sterling and the Chinese Yuan.

The management of exchange risk on commercial contracts is centralised by the parent company's Treasury Department and comprises two parts: the certain and the uncertain risk.

EXCHANGE RISK MANAGEMENT RELATING TO TENDERS IN FOREIGN CURRENCIES (UNCERTAIN RISK)

The Faiveley Transport Group is required to submit tenders denominated in foreign currencies. The Group's hedging policy is not to use hedge

instruments during the offer phase, unless when specifically decided by Management. The aim is to manage the exchange risk through normal commercially available means. If necessary, the Group Treasury Department uses mainly exchange options.

EXCHANGE RISK MANAGEMENT RELATING TO COMMERCIAL CONTRACTS (CERTAIN RISK)

Commercial contracts in foreign currencies (most often successful tenders) are hedged by the Group Treasury Department from contractual commitment. The instruments used primarily include forward purchases and sales. Treasury may also use options.

The Group's policy is to systematically hedge the full value of future transactions expected in every major currency. The minimum trigger threshold for a foreign exchange hedge is €250 thousand.

Various flows are hedged against, at a minimum of 80%, based on the annual budget.

In addition to commercial contracts, all financial positions and management fees deemed significant are systematically hedged against.

GROUP EXPOSURE RESULTING FROM COMMERCIAL CONTRACTS AT 31 MARCH 2013

Amounts in thousands of currency	Trade receivables (a)	Trade payables (a)	Commitments (c)	Net unhedged position (d) = a-b+/-c	Hedging instruments (e)	Net hedged position (f) = d-e
AUD	-	-	(2,585)	(2,585)	(2,579)	(7)
CNY	18,951	(1,278)	56,939	74,611	74,457	154
CZK	-	(35)	(750,348)	(750,383)	(750,868)	485
GBP	1,706	(217)	14,666	16,155	11,407	4,748 *
HKD	(8,358)	-	(251,950)	(260,307)	(260,648)	340
INR	-	-	(151,204)	(151,204)	(150,000)	(1,204)
PLN	-	-	3,459	3,459	3,400	59
RUB	-	-	209,705	209,705	209,713	(8)
SEK	(18,085)	4,548	(89,015)	(102,552)	(103,036)	484
SGD	925	-	24,885	25,810	25,822	(12)
USD	13,424	1,900	16,250	31,574	29,149	2,425

** The £4.7 million amount relates to the SSL project, for which £16 million remains outstanding.*

FORWARD SALES HEDGING FINANCIAL AND COMMERCIAL TRANSACTIONS AS AT 31 MARCH 2013

	Nominal value		Fair value
	€ thousands	Local currency thousands	€ thousands
Australian Dollar	4,691	6,048	(198)
Chinese Yuan	18,350	149,180	(259)
Czech Koruna	13,659	349,964	63
Pound Sterling	15,890	13,597	(152)
Hong-Kong Dollar	44,150	452,320	(1,309)
Indian Rupee	905	64,825	1
Polish Zloty	816	3,400	7
Russian Rouble	5,274	209,713	-
Swedish Krona	16,875	142,980	(206)
Singapore Dollar	16,240	25,822	-
US Dollar	155,875	204,254	(3,489)
TOTAL	**292,725**		**(5,542)**

FORWARD PURCHASES HEDGING FINANCIAL AND COMMERCIAL TRANSACTIONS AS AT 31 MARCH 2013

	Nominal value		Fair value
	€ thousands	Local currency thousands	€ thousands
Australian Dollar	4,891	6,250	159
Swiss Franc	244	300	2
Chinese Yuan	43,682	355,645	400
Czech Koruna	49,222	1,256,119	(879)
Pound Sterling	29,300	24,319	(586)
Hong-Kong Dollar	50,083	505,061	700
Indian Rupee	2,086	151,849	58
Polish Zloty	1,837	7,684	(9)
Swedish Krona	54,307	459,662	603
US Dollar	115,918	152,089	2,335
TOTAL	**351,570**		**2,783**

SENSITIVITY ANALYSIS

The following table presents, at 31 March 2013, the sensitivity to a 10% positive or negative change in the Euro against other currencies:

- the effect on pre-tax profit only applies to financial assets and liabilities recognised in the balance sheet, which are denominated in a currency other than the functional currency of their controlling entity and which are not hedged against.
- the effect on equity results from the efficient portion of derivative instruments qualifying as cash flow hedges.

Currency	Movement in € exchange rate	Effect on profit from recurring operations (before tax)	Effect on equity reserves
Chinese Yuan	10%	170	
	(10%)	(209)	
Australian Dollar	10%	(44)	(188)
	(10%)	50	188
Hong-Kong Dollar	10%	240	-
	(10%)	(180)	-
Brazilian Real	10%	(315)	-
	(10%)	385	-
Swedish Krona	10%	242	492
	(10%)	(322)	(492)
Czech Koruna	10%	433	-
	(10%)	(521)	-
Pound Sterling	10%	(208)	-
	(10%)	210	-
Russian Rouble	10%	-	137
	(10%)	-	(148)

The impact of fluctuations in the Euro against other currencies is not material.

b) Interest rate risk

The syndicated debt, excluding the revolving facility, is indexed on US Dollar Euribor and Libor variable rates and may be hedged in accordance with the Group's interest rate risk policy. None of the revolving facilities, whether drawn or undrawn, nor the US private placement-type fixed-rate bond issue are subject to interest rate hedging.

To manage its risk, the Treasury department has implemented a hedging strategy using interest rate swaps, tunnels and caps and options.

The exposure of interest rates on loans in Euros is hedged for between 77% and 83% of the total debt bearing a Euro interest rate, depending on fluctuations for the 2013/2014 period.

The US dollar-denominated syndicated debt is no longer hedged. However, taking account of the US private placement bond issue, only 26% of debt for the 2013/2014 period is exposed to movements in interest rates.

The estimated cost of the Euro-denominated syndicated debt is 1.94% for the 2013/2014 period, hedges and spreads included. The estimated cost of the US-denominated debt, which includes the US Private Placement is estimated at 3.87%. The total cost of the Group's debt for 2013/2014 is therefore estimated at 2.5%.

Considering the amortisation profile of the syndicated facility and interest rate hedges, the net exposure at 31 March 2013 was as follows:

EUR-denominated debt	Financial debt		Hedge instruments		Net exposure	
	Fixed rate	Variable rate	Fixed rate	Variable rate	Fixed rate	Variable rate
Less than 1 year	-	32,440	32,440	-	-	-
1 to 2 years	-	32,440	32,440	-	-	-
2 to 3 years	-	32,440	15,000	-	-	17,440
More than 3 years	-	170,168	15,000	-	-	155,168
TOTAL EUR	**-**	**267,488**	**94,880**	**-**	**-**	**172,608***

** Sensitivity analysis of net exposure (€172.6 million):*
A 100 basis points increase in the reference "Euribor 3 months" interest rate would result in a full-year increase of €1.6 million in the interest expense.

Given the amortisation profile of the syndicated credit, the US private placement and interest rate hedges, the net exposure of the US dollar-denominated debt at 31 March 2013 was as follows:

USD-denominated debt	Financial debt		Hedge instruments		Net exposure	
	Fixed rate	Variable rate	Fixed rate	Variable rate	Fixed rate	Variable rate
Less than 1 year	-	3,580	-	-	-	3,580
1 to 2 years	-	3,580	-	-	-	3,580
2 to 3 years	-	3,580	-	-	-	3,580
More than 3 years	75,000	21,375	-	-	75,000	21,375
TOTAL USD	**75,000**	**32,115**	**-**	**-**	**75,000**	**32,115***

** Sensitivity analysis of net exposure (USD 32.1 million):*
A 100 basis points increase in the reference "Libor USD 3 months" interest rate would result in a full-year increase of USD 0.32 million in the interest expense.

INSTRUMENTS RECOGNISED IN EQUITY

	On EUR loans		On USD loans			
	Nominal (EUR thousands)	Fair value (EUR thousands)	Nominal (currency thousands)	Fair value (currency thousands)	Nominal (EUR thousands)	Fair value (EUR thousands)
Swap	160,000	(3,095)	225	(2)	176	(2)
Tunnel	12,500	(212)	-	-	-	-
Cap	20,000	(56)	-	-	-	-
TOTAL	**192,500**	**(3,363)**	**225**	**(2)**	**176**	**(2)**

SENSITIVITY ANALYSIS

The Group has implemented a diversified interest rate risk management policy aimed at limiting the impact of potential interest rate increases on its cash flow. As at 31 March 2013, the servicing of projected debt, net of hedges put in place, would limit the impact of a 1% increase in interest rates on debt and hedges to €0.8 million.

The positive impact on equity is €1.4 million with a 0.5% interest rate increase.

c) Risk on raw materials

The Faiveley Transport Group is exposed to increases in the costs of raw materials such as steel, aluminium and copper, and to increases in transportation costs.

The Group has already anticipated these effects, both in terms of its purchasing policy and in the preparation of its tenders. As regards contracts relating to projects, price indexation mechanisms enable the Group to pass on a large part of the increases in raw material costs.

However, the Faiveley Transport Group's sintered brake pads activity is exposed to fluctuations in the price of copper. Contracts have been entered into to hedge 70% of the 2013/2014 financial year exposure through euro-denominated raw material swaps.

SENSITIVITY ANALYSIS

A 1% increase in the price of copper would have a negative impact of €11 thousand on EBITDA .

d) Derivative instruments

THE FAIR VALUE OF DERIVATIVE INSTRUMENTS FOR HEDGING EXCHANGE, INTEREST RATE AND RAW MATERIALS RISKS REFLECTED IN THE BALANCE SHEET WAS AS FOLLOWS:

At 31 March 2013	Financial instruments – Assets	Financial instruments – Liabilities	Unrealised capital gains/ (losses) taken to equity
Interest rate hedges(1)	**-**	**3,321**	**(3,261)**
Raw material hedges(1)	**-**	**11**	**(11)**
Foreign exchange hedges	**5,246**	**8,030**	**(35)**
• *fair value hedges*	*2,950*	*4,042*	*-*
• *cash flow hedges*	*38*	*75*	*(35)*
• *not eligible for hedge accounting*	*2,258*	*3,913*	*-*
TOTAL	**5,246**	**11,362**	**(3,307)**

(1) Cash flow hedges.

At 31 March 2012	Financial instruments – Assets	Financial instruments – Liabilities	Unrealised capital gains/ (losses) taken to equity
Interest rate hedges	**-**	**3,623**	**(3,557)**
Raw material hedges	**-**	**4**	**(4)**
Foreign exchange hedges	**5,003**	**4,018**	**116**
• *fair value hedges*	*3,270*	*3,006*	*-*
• *cash flow hedges*	*184*	*78*	*116*
• *not eligible for hedge accounting*	*1,549*	*934*	*-*
TOTAL	**5,003**	**7,645**	**(3,445)**

MOVEMENT IN EQUITY RESERVE (EXCL. DEFERRED TAX)

	Amount 1 April 2012	Movement in the year	Amounts recycled to income statement	Amount 31 March 2013
Interest rate hedges	(3,557)	603	(307)	(3,261)
Foreign exchange hedges	116	(149)	(2)	(35)
Raw material hedges	(4)	(7)	-	(11)
TOTAL	**(3,445)**	**447**	**(309)**	**(3,307)**

HORIZON FOR RELEASE OF AMOUNTS RECORDED IN EQUITY AT 31 MARCH 2013

The amount recorded in equity, in respect of exchange rate derivatives €(35 thousand), will be recycled to the income statement in the year ending 31 March 2014.

The amount recorded in equity, in respect of interest rate derivatives €(3,261 thousand), will be released to the income statement between 31 March 2013 and 31 March 2017 according to the maturity of the flows hedged.

The amount taken to equity in relation to raw materials €(11 thousand), will be transferred to the income statement for the year to 31 March 2014.

In addition, the Faiveley Transport Group makes use of factoring arrangements in France, Germany, Spain, Italy, the UK and China. Factoring enables the Group to sell, without recourse, part of its receivables to various factoring companies and banks. This selling without recourse has enabled the Group to improve trade receivables recovery and to transfer the risk of default or bankruptcy on the part of customers or other debtors to the factors.

At 31 March 2013, receivables sold without recourse totalled €92.8 million and the amount of receivables sold and not guaranteed was €1.2 million.

As regards the risk associated with financial assets, the Group's maximum exposure is equal to their book value.

14.5 CREDIT RISK

Owing to its commercial activities, the Faiveley Transport Group is exposed to credit risk, in particular the risk of default on the part of its customers.

The Group only enters into commercial relationships with third parties whose financial position is known to be healthy. The Group's policy is to verify the financial health of those customers wishing to obtain credit.

In the case of derivative instruments and transactions that generate cash when they are unwound, the counterparties are limited to financial institutions that finance the Group.

14.6 LIQUIDITY RISK

Prudent liquidity risk management requires the Group to retain a sufficient level of cash and securities that can be traded in a market, to have adequate financial resources due to the implementation of appropriate credit facilities and to be in a position to unwind positions in the market. Due to the dynamism of the Group's activities, the Treasury Department aims to maintain financial flexibility by retaining open but unused credit lines.

To refinance the acquisition of US company Graham-White Manufacturing Co., and diversify its financing sources, during the first half of the year,

the Group finalised its first private placement bond issue in the US with two institutional investors, for a total of US$75 million.

Moreover, an additional one-year €25 million credit facility has been negotiated, with its extension being deemed highly probable.

At 31 March 2013, the Group complied with all financial conditions required by all credit agreements.

The Group estimates that the cash flows generated by its operating activities, cash and funds available *via* existing credit lines will be sufficient to cover the expenditure and investment necessary for its operations, to service its debt and to pay dividends. Conversely, the Group may have to borrow to finance potential acquisitions.

a) Available cash and cash equivalents

	31 March 2013	31 March 2012
Available credit lines (a)	145,244	56,754
Parent company cash (b)	(4,746)	27,100
Subsidiaries cash and cash equivalents (c)	178,500	182,129
AVAILABLE CASH AND CASH EQUIVALENTS (1) = (a+b+c)	**318,998**	**265,983**
Borrowings due in less than one year (d)	37,311	77,174
Available credit lines maturing in less than one year and bank overdrafts (e)	106,928	110,196
NET CASH AND CASH EQUIVALENTS AVAILABLE OVER THE NEXT YEAR (1-d-e)	**174,759**	**78,613**

Cash and cash equivalents include unused factoring cash of €45.7 million (net of non-guaranteed receivables factored).

The increase in available cash and cash equivalents was due to the refinancing of the acquisition of Graham-White Manufacturing Co., *via* the US$75 million private placement, the setting up of the new €25 million short-term facility and the cash flow generated by the Group.

Financial debt of less than one year is disclosed in paragraph 13.1 (excluding bank overdraft, fair value of derivatives and invoices factored and not guaranteed).

Available credit lines represent credit lines granted by the banks and available immediately to the subsidiaries or the parent company. At 31 March 2013, €7.8 million was used in respect of a bank overdraft.

b) Maturity dates of financial liabilities at 31 March 2013

At 31 March 2013	Book value	Under 1 year	1 to 5 years	Over 5 years	Non-financial liabilities
Liability financial instruments:					
Borrowings	348,760	35,418	257,675	55,667	-
Finance leases	1,651	185	796	670	-
Employee profit sharing	65	65	-	-	-
Various other financial liabilities	7	7	-	-	-
Guarantees and deposits received	90	56	34	-	-
Credit current accounts	141	141	-	-	-
Bank overdrafts	7,840	7,840	-	-	-
Fair value of derivatives – liabilities	16,242	16,242	-	-	-
Invoices factored and not guaranteed	1,209	1,209	-	-	-
Current liabilities	257,872	237,839	-	-	20,033
Interest on liabilities	1,438	1,438	-	-	-
TOTAL	**635,315**	**300,440**	**258,505**	**56,337**	**20,033**

FUTURE CASH FLOW

At 31 March 2013	Value	Under 1 year	1 to 2 years	2 to 3 years	Over 3 years
Borrowings	350,196	36,115	34,494	34,494	245,093
Finance leases	1,651	183	189	196	1,083
Employee profit sharing	65	65	-	-	-
Various other financial liabilities	7	7	-	-	-
Guarantees and deposits received	56	56	-	-	-
Credit current accounts	141	141	-	-	-

FORECAST UNDISCOUNTED FUTURE CASH FLOWS OF INTEREST AND INTEREST RATE HEDGES

At 31 March 2013	Value	Under 1 year	1 to 2 years	2 to 3 years	Over 3 years
Interest on liabilities	34,031	5,967	5,927	5,972	16,165
Cash flow from liability financial instruments	3,335	2,176	969	190	-

c) Maturity dates of financial liabilities at 31 March 2012

At 31 March 2012	Book value	Under 1 year	1 to 5 years	Over 5 years	Non-financial liabilities
Liability financial instruments:					
Borrowings	366,811	50,206	316,605	-	-
Finance leases	2,471	616	774	1,081	-
Employee profit sharing	65	65	-	-	-
Various other financial liabilities	86	86	-	-	-
Guarantees and deposits received	57	1	56	-	-
Credit current accounts	2,451	2,451	-	-	-
Bank overdrafts	4,771	4,771	-	-	-
Fair value of derivatives – liabilities	15,892	15,892	-	-	-
Invoices factored and not guaranteed	902	902	-	-	-
Current liabilities	226,953	211,986	-	-	14,967
Other liabilities	10,251	221	-	-	10,030
Interest on liabilities	246	246	-	-	-
TOTAL	**630,956**	**287,443**	**317,435**	**1,081**	**24,997**

FUTURE CASH FLOWS

At 31 March 2012	Value	Under 1 year	1 to 2 years	2 to 3 years	Over 3 years
Borrowings	425,560	73,721	36,070	35,902	279,867
Finance leases	1,846	198	183	198	1,276
Employee profit sharing	65	65	-	-	-
Various other financial liabilities	65	65	-	-	-
Guarantees and deposits received	56	-	56	-	-
Credit current accounts	2,112	2,112	-	-	-

FORECAST FUTURE CASH FLOWS OF INTEREST AND INTEREST RATE HEDGES

At 31 March 2012	Value	Under 1 year	1 to 2 years	2 to 3 years	Over 3 years
Interest on liabilities	19,572	4,726	4,425	4,593	5,828
Cash flow from liability financial instruments	3,468	2,303	1,014	151	-

14.7 CONTRIBUTION TO NET FINANCE INCOME/(COST)

			Revaluation				
At 31 March 2013	Interest	Dividends	Profits	Losses	Disposals	Exchange gain or loss and other	Net finance income
Loans and receivables	1,409	-	-	-	-	1,223	(9,880)
Payables at amortised cost	(12,512)	-	-	-	-		
Instruments measured at fair value through profit or loss	(414)	-	931	(4,094)	387	2,023	(1,167)
Assets held for sale	-	-	-	-	-	-	-
Other	(2,602)	21	-	-	-	-	(2,581)
TOTAL	**(14,119)**	**21**	**931**	**(4,094)**	**387**	**3,246**	**(13,628)**

Au 31 mars 2012	Interest	Dividends	Revaluation		Disposals	Exchange gain or loss and other	Net finance income
			Profits	Losses			
Loans and receivables	1,540	-	-	-	-	(3,376)	(14,985)
Payables at amortised cost	(13,150)	-	-	-	-		
Instruments measured at fair value through profit or loss	(103)	-	1,294	(52)	926	160	2,225
Assets held for sale	-	-	-	-	-	-	-
Other	(2,436)	11	-	-	-	-	(2,425)
TOTAL	**(14,148)**	**11**	**1,294**	**(52)**	**926**	**(3,216)**	**(15,185)**

15. Current liabilities

	31 March 2013	31 March 2012
Trade payables	175,794	162,987
Tax and social security liabilities	60,112	61,271
Accrued credit notes	966	843
Deferred income	4,484	594
Accrued expenses	10,267	12,531
Due to suppliers of non-current assets	647	384
Dividends payable	1,286	55
Other operating liabilities	4,315	6,779
TOTAL	**257,871**	**245,444**

At 31 March 2013, "Trade payables" included €17.4 million of credit work-in-progress (compared to €17.7 million at 31 March 2012) and "Deferred income" includes the Wabtec damages paid in compensation for the future period, for €3.7 million.

16. Factoring

In order to optimise the cost of the Group's bank financing, Faiveley Transport Tours, Faiveley Transport Amiens, Faiveley Transport Gennevilliers, Faiveley Transport NSF, Faiveley Transport Italia, Faiveley Transport Ibérica, Faiveley Transport Leipzig, Faiveley Transport Witten and Faiveley Transport Birkenhead and SFRT sell their trade receivables to a factor.

Factoring resulted in a €92,788 thousand reduction in trade receivables at 31 March 2013. In addition, available and uncalled cash with the factoring companies amounted to €46,875 thousand and is included in cash and cash equivalents.

However, the portion of receivables sold and not guaranteed was recorded as financial debt under "Current borrowings and financial liabilities" for an amount of €1,209 thousand. The risk incurred by the Group in respect of receivables sold and not guaranteed relates to the non-collection of these receivables.

17. Segment reporting

At 31 March 2008, Faiveley SA only held shares in Faiveley Transport and had no relationship with the operating subsidiaries.

Following the transactions completed on 23 December 2008, Faiveley SA decided to proceed with the dissolution of Faiveley Transport without liquidation. At 31 March 2009, the net assets of Faiveley Transport were transferred to Faiveley SA (subsequently renamed Faiveley Transport) by a simple merger transaction by means of a complete transfer of its assets and liabilities, therefore eliminating all intermediate companies between the Group's parent company and operating entities.

Due to this, as of 31 March 2010 segment reporting only concerns the railway sector.

17.1 BY BUSINESS SEGMENT

Income statement

	31 March 2013	31 March 2012
Continuing operations:		
Sales	987,706	900,523
Operating profit	111,110	93,272
Net finance income/(cost)	(13,628)	(15,185)
Income tax	(33,871)	(26,912)
Share of profit of associates	-	-
PROFIT FROM CONTINUING OPERATIONS	**63,611**	**51,175**
CONSOLIDATED NET PROFIT	**63,611**	**51,175**
Depreciation and amortisation for the period	16,344	14,947

Balance sheet

	31 March 2013	31 March 2012
Property, plant and equipment and intangible assets, net	765,644	757,949
Non-current financial assets	5,851	5,784
Deferred tax assets	44,816	43,598
SUB-TOTAL NON-CURRENT ASSETS	**816,311**	**807,331**
Inventories and receivables (excluding tax)	431,063	418,261
Other current assets	51,652	38,891
Cash and cash equivalents	174,958	210,246
SUB-TOTAL CURRENT ASSETS	**657,673**	**667,398**
TOTAL ASSETS	**1,473,984**	**1,474,729**
Equity	**559,860**	**505,145**
Employee benefits and other non-current provisions	33,008	36,213
Deferred tax liabilities	28,271	22,090
Non-current financial debt	314,841	352,865
SUB-TOTAL NON-CURRENT LIABILITIES	**376,120**	**411,168**
Current provisions	83,910	80,353
Current financial debt	62,600	95,420
Advances, prepayments and non-financial liabilities (excluding tax)	378,731	370,118
Other current liabilities	12,763	12,525
SUB-TOTAL CURRENT LIABILITIES	**538,004**	**558,416**
TOTAL EQUITY AND LIABILITIES	**1,473,984**	**1,474,729**
Acquisitions of property, plant and equipment and intangible assets (excluding goodwill) for the period	20,738	17,369
Workforce	5,483	5,469

17.2 BY GEOGRAPHIC REGION

2012/2013 financial year

CONTRIBUTION BY BUSINESS SEGMENT AND GEOGRAPHIC REGION OF ORIGIN

	France	Europe (excl. France)	Americas	Asia/Pacific	Total railway business
Sales	230,881	421,151	141,660	194,014	987,706
Closing balance of property, plant and equipment and intangible assets (excluding goodwill)	41,136	30,015	33,423	9,834	114,408
Acquisition of property, plant and equipment and intangible assets (excluding goodwill)	10,107	6,190	2,345	2,096	20,738
Amortisation and depreciation of property, plant and equipment and intangible assets (excluding goodwill)	5,361	5,994	2,455	2,534	16,344

2011/2012 financial year

CONTRIBUTION BY BUSINESS SEGMENT AND GEOGRAPHIC REGION OF ORIGIN

	France	Europe (excl. France)	Americas	Asia/Pacific	Total railway business
Sales	216,993	395,174	95,781	192,575	900,523
Closing balance of property, plant and equipment and intangible assets (excluding goodwill)	36,463	29,418	33,078	10,009	108,968
Acquisition of property, plant and equipment and intangible assets (excluding goodwill)	9,478	4,053	1,454	2,384	17,369
Amortisation and depreciation of property, plant and equipment and intangible assets (excluding goodwill)	5,856	5,080	1,402	2,609	14,947

17.3 PRINCIPAL CUSTOMERS

During the 2012/2013 financial year, the Group achieved 27.8% of its sales with the three largest global manufacturers (Alstom, Bombardier and Siemens) and 50% with its top ten customers (including Stadler, SNCF, Indian Railways, CNR, Trenitalia and Ansaldo).

18. Sales

	31 March 2013	31 March 2012
Sales of products associated with contracts	961,646	86, 885
Sales of services	26,060	36,638
TOTAL*	**987,706**	**900,523**

** Of which sales of "Services" related products of €403 million to 31 March 2013 and €315 million to 31 March 2012.*

19. Cost of sales

	31 March 2013	31 March 2012
Direct labour	(80,320)	(76,730)
Raw materials	(408,625)	(377,946)
Fixed costs	(75,940)	(59,053)
Procurement costs	(48,858)	(44,430)
Engineering costs	(60,157)	(59,067)
Other direct costs	(42,491)	(40,482)
Change in projects in progress	17,583	19,870
Net change in project provisions (charge/reversal)	(31,830)	(24,290)
Net change in provisions for losses on completion	(9,469)	(4,594)
TOTAL COST OF SALES	**(739,371)**	**(666,722)**

At 31 March 2013, the cost of sales was reduced by €4.5 million due to the recognition of damages awarded following the Wabtec trial.

20. Other income and expenses from recurring operations

	31 March 2013	31 March 2012
Royalties	1,101	1,456
Doubtful debts	1,015	-
Writebacks of provisions for other liabilities	487	891
Insurance compensation	3	47
Other operating income	2,867	293
TOTAL OTHER INCOME	**5,473**	**2,687**
Royalties	-	(162)
Doubtful debts	-	(2,475)
Charges to provisions for other liabilities	(905)	(3,335)
Inventory writedowns	(2,912)	(4,194)
Employee profit sharing	(2,157)	(1,162)
Other expenses	(1,851)	(743)
TOTAL OTHER EXPENSES	**(7,825)**	**(12,071)**
NET OTHER INCOME AND EXPENSES FROM RECURRING OPERATIONS	**(2,352)**	**(9,384)**

At 31 March 2013, "Other income" was favourably affected by a net income of €1.7 million related to Wabtec composed of the €4.1 million damages received (income corresponding to the reimbursement of expenses incurred in previous financial years) and additional fees of €2.4 million related to the same matter, for which a provision was recognised during the financial year.

21. Restructuring costs and gains and losses on disposal of property, plant and equipment and intangible assets

RESTRUCTURING COSTS

Restructuring costs for the period totalled €1 million, compared to €1.2 million at 31 March 2012. During the financial year 2012/2013, these restructuring costs primarily related to the reorganisation of Faiveley Transport Metro Technology Shanghai.

DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	31 March 2013	31 March 2012
Sales price of assets sold	49	189
Net book value of assets sold	(213)	(393)
TOTAL	**(164)**	**(204)**

22. Net finance income/(cost)

	31 March 2013	31 March 2012
Gross cost of financial debt	(12,016)	(12,968)
Income from cash and cash equivalents	1,433	2,268
NET COST OF FINANCIAL DEBT	**(10,583)**	**(10,700)**
Financial instrument income	3,276	4,414
Income linked to exchange differences	10,021	9,552
Proceeds from sale of marketable securities	-	-
Reversal of financial provisions	-	153
Income from vendor loan	223	96
Dividends received	21	11
Other	141	103
OTHER FINANCE INCOME	**13,682**	**14,330**
Financial instrument charges	(4,416)	(3,180)
Charges linked to exchange differences	(8,975)	(12,778)
Interest charges on retirement commitments	(1,160)	(1,046)
Net book value of financial assets sold	-	(3)
Charges on bank guarantees	(1,276)	(725)
Reversal of discounting the value of put options held by minority shareholders	(166)	(665)
Other	(733)	(419)
OTHER FINANCE COSTS	**(16,726)**	**(18,815)**
NET FINANCE COST	**(13,628)**	**(15,185)**

The net finance cost for the year was primarily due to:

- the net cost of financial debt for the year, *i.e.* €10.6 million compared to €10.7 million in the previous year. The significant decline in market rates, combined with improved hedging offset the additional interest expense related to the Graham-White acquisition debt;
- a €1.4 million loss on financial instruments;
- a €1.1 million favourable impact of realised and unrealised exchange differences;
- other financial income and expense items, comprising bank guarantees, interest on pension commitments, the effect of the reversal of discounting the value of put options held by minority shareholders and other financial income and expenses, resulting in a negative net impact of €2.8 million.

23. Income tax

23.1 ANALYSIS BY TYPE

	31 March 2013	31 March 2012
Current tax – continuing operations	29,516	29,761
Deferred tax – continuing operations	4,355	(2,849)
TOTAL INCOME TAX – CONTINUING OPERATIONS	**33,871**	**26,912**
Tax on discontinued operations	-	-
TOTAL TAX	**33,871**	**26,912**

The income tax charge was €33.9 million, compared to €26.9 million for the year to 31 March 2012. This increase was due to the growth in profit before tax, which rose from €78 million for the year to 31 March 2012 to €97.5 million for the year to 31 March 2013. As a percentage, the effective tax rate was 34.7%, compared to 34.5% the previous year. This increase is analysed as follows:

- the weak results recorded by the Chinese subsidiaries, in particular by the two platform door subsidiaries, FTMT Shanghai and Faiveley Transport Far East, which benefit from a reduced tax rate;
- for the French subsidiaries: the tax law no longer allows a 100% deduction in financial charges but now rather an 85% deduction, a new 3% tax on dividends has been introduced and the relative significance of the CVAE charge, which has been reclassified to income tax since the 2010/2011 financial year with similar amounts in both years (approximately €2 million).

The income tax rate paid was 30.3%, compared with 38.1% for the year to 31 March 2012.

23.2 EFFECTIVE TAX RATE

	31 March 2013	31 March 2012
Pre-tax profit from continuing operations	**97,482**	**78,087**
Pre-tax profit from operations sold	-	-
Statutory tax rate of the parent company	34.43%	34.43%
THEORETICAL TAX CREDIT/(CHARGE)	(33,563)	(26,885)
Impact of:		
• permanent differences between profits for accounting purposes and taxable profits	(1,093)	(1)
• differences between the tax rates applicable to the parent company and to the subsidiaries	2,815	1,298
• impact of other taxes (CVAE in France and IRAP in Italy)	(3,546)	(3,272)
• the liability method (changes in tax rates)	(273)	(197)
• tax saving achieved through offset of tax losses carried forward	-	-
• recognition of future savings on tax losses and prior temporary differences (FT Brazil and FT USA)	-	5,428
• change in deferred tax assets in respect of tax losses carried forward not recognised for the financial year	134	(1,614)
• change in deferred tax assets not recognised	353	(1,242)
• tax credits	-	113
• tax adjustments in respect of earlier periods	(530)	(548)
• other differences	1,832	8
TAX CHARGE	**(33,871)**	**(26,912)**
Effective tax rate	**34.7%**	**34.5%**

23.3 BREAKDOWN OF TAX LOSSES CARRIED FORWARD (TAX BASES) BY EXPIRY DATE

	2012/2013	2011/2012
Losses expiring within 4 years	11,235	7,109
Losses expiring in 5 years and over	9,353	7,245
Losses that may be carried forward indefinitely	22,811	26,916
TOTAL	**43,399**	**41,270**
Tax losses not recognised as deferred tax assets	*22,409*	*24,767*
Tax losses recognised as deferred tax assets	*20,990*	*16,503*
Limits on the use of tax losses recognised as deferred tax assets:		
Losses expiring within 4 years	*4,660*	*5,743*
Losses expiring in 5 years and over	*7,441*	*438*
Losses that may be carried forward indefinitely	*8,889*	*10,322*

24. Share of profit/(loss) from operations sold or held for sale

Nil.

25. Payroll costs and workforce

	2012/2013	2011/2012
Salaries	198,738	179,161
Social security charges	55,474	51,127
Retirement and other post-employment benefits	8,580	5,886
Charges associated with share-based payments	-	-
TOTAL PAYROLL COSTS	262,792	236,174
Managers	932	953
Supervisors and employees	2,367	2,414
Operatives	2,184	2,102
TOTAL WORKFORCE	**5,483**	**5,469**

26. Post-balance sheet events

On 17 May 2013 Faiveley Transport acquired 100% of Schwab Verkehrstechnik AG, a leading designer and manufacturer of couplers and buffers for freight and rail transit markets, which reported sales of CHF 23 million in 2012. This company is based in Schaffhausen (Switzerland) and has 42 employees.

27. Transactions with related companies

The aim of this note is to present the material transactions entered into between the Group and its related parties as defined by IAS 24.

The parties related to the Faiveley Transport Group are the consolidated companies (including those companies that are proportionally consolidated and those consolidated using the equity method), the entities and individuals that control Faiveley Transport and the Group's senior management.

Transactions entered into between the Faiveley Transport Group and its related parties are at arm's length terms.

27.1 TRANSACTIONS WITH RELATED COMPANIES

A list of consolidated companies is provided in Note G.

Transactions carried out and balances outstanding with fully consolidated companies at the balance sheet date are fully eliminated on consolidation.

Only the following are included in the notes below:

- data relating to such intra-Group transactions, when they involve companies over which the Group exercises joint control (proportionally consolidated) and those over which the Group has significant influence (accounted for using the equity method) concerning the portion not eliminated on consolidation;
- material transactions with other Group companies.

a) Transactions with consolidated companies

WITH JOINT VENTURES

Joint ventures are proportionally consolidated companies:

- Qingdao Faiveley Sri Rail Brake Co. Ltd.: 50/50 joint venture formed in 2006 to enable the Group to penetrate the Chinese brake market.
- Datong Faiveley Couplers System Co. Ltd.: 50/50 joint venture formed in 2007 with Datong Yida Foundry Co. Ltd., with the aim of manufacturing and selling couplers.
- ShiJiaZhuang JiaXiang Precision Machinery Co. Ltd.: on 20 December 2007, the Group acquired 50% of the shares of this Chinese company which specialises in the development and production of compressors for the railway market.

TRANSACTIONS WITH JOINT VENTURES NOT ELIMINATED ON CONSOLIDATION

The consolidated financial statements include transactions carried out by the Group with its joint ventures as part of its normal business activities.

These transactions are normally carried out at arm's length terms.

(€ thousands)	2012/2013	2011/2012
Sales	4,568	8,187
Operating receivables	3,335	5,520
Operating payables	(1,959)	(379)

CONTRIBUTION OF JOINT VENTURES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(€ thousands)	2012/2013	2011/2012
Non-current assets	1,704	1,748
Current assets	20,128	24,414
Equity	8,956	9,202
Other non-current liabilities	11	16
Current liabilities	9,249	13,328
Sales	17,390	30,228

WITH ASSOCIATES

Nil.

b) With the companies that control Faiveley Transport

WITH FRANCOIS FAIVELEY PARTICIPATIONS

Contract of assistance:

The Supervisory Board of 6 June 2012 authorised the signing of an amendment to the technical, commercial and administrative assistance agreement of 26 June 2004. This amendment includes an indexing clause that permits an annual review of compensation for services provided by Francois Faiveley Participations to Faiveley Transport.

Under the terms of the contract of assistance and the rebilling of rent and services provided, Faiveley Transport recognised the following amounts as expenses and income for the financial year:

(€)	Faiveley Transport expenses	Faiveley Transport income
Contract of assistance, provision of services	373,094	1,020
Rebilling of rent and utility expenses	-	2,150

Fraction of financial investments, receivables, debts, expenses and income pertaining to these related companies:

(€ thousands)	2012/2013	2011/2012
Trade receivables	1	1
Borrowings and various financial liabilities	-	(1,938)
Trade payables	-	-
Rebilling of rents	3	4
Provision of services	(373)	(365)
Financial income	-	-
Financial costs	(5)	(30)

27.2 SENIOR MANAGEMENT AND NON-EXECUTIVE OFFICERS' REMUNERATION

Senior management and non-executive officers comprise mainly the members of the Management Board, the Supervisory Board and the Executive Committee.

The Remuneration Committee determines the remuneration to be allocated to executive officers; it is responsible for assessing and determining the variable portion of the remuneration of the members of the Management Board, which is based on performance targets and the financial statements audited by the Statutory Auditors.

The following table provides details, in aggregate and for each category, of the components of senior management's remuneration:

(€)	2012/2013	2011/2012
Short-term benefits(1)	5,606,976	6,228,772
Termination benefits(2)	400,000	-
Post-employment benefits(3)	21,429	29,781
Share-based compensation(4)	-	-
Other long-term benefits	397	(291)
Directors' fees	249,000	138,400
TOTAL	**6,277,802**	**6,396,662**

(1) This category comprises fixed and variable remuneration (including employers' costs), profit sharing and incentive payments, supplementary contributions and benefits in kind paid during the year.
(2) At 31 March 2013, termination benefits concerned J.C. Roncin, who resigned from his position as Quality Director in August 2012.
(3) Change in retirement provisions.
(4) Expense recognised in the income statement.

27.3 AGREEMENTS ENTERED INTO WITH SENIOR MANAGEMENT

With Thierry Barel

Following the appointment of Thierry Barel as Chairman of the Management Board and Chief Executive Officer on 1 April 2011, the terms and conditions governing the termination of his duties have been defined. Thierry Barel will thus be entitled to compensation based on performance criteria, not exceeding eighteen months of total gross remuneration, in the event of his dismissal by the Supervisory Board.

With Robert Joyeux

MEMORANDUM OF UNDERSTANDING WITH MANAGERS

As part of the transactions relating to the reorganisation of its capital structure, Faiveley Transport concluded a memorandum of understanding and an amendment to this MOU on 16 October 2008 and 17 November 2008, respectively, with the managers and their spouses who were partners in Faiveley Management SAS.

Within the framework of the MOU of 16 October 2008, Robert Joyeux received 140,610 Faiveley Transport shares in exchange for the 164,430 Faiveley Management shares that he transferred to Faiveley Transport. Robert Joyeux also committed to retain all his Faiveley Transport shares for a period of two years starting on 23 December 2008 and two thirds of his shares for a period of three years starting on 23 December 2008. This last clause was not applicable during the financial year. Furthermore, for a period of six years starting on 23 December 2008, any disposal of a block of more than 10,000 Faiveley Transport shares is subject to a Faiveley Transport pre-emption right.

AMENDMENT TO THE CONSULTING AND SUPPORT CONTRACT OF 22 APRIL 2011

On 27 March 2012, an amendment to extend the consulting assignment provided by Robert Joyeux to the General Management of the Company

was submitted for approval to the Supervisory Board. The Supervisory Board authorised the Chairman of the Management Board to sign this amendment This expired at the end of the 2012/2013 financial year.

With Didier Alix

On 22 July 2011, an amendment to the credit agreement of 22 December 2008, concluded with a pool of nine banks, was presented to and authorised by the Supervisory Board.

One of the banks involved in the signing of this amendment is Société Générale. Didier Alix, member of the Company's Supervisory Board, acts as an advisor to the Chairman of this bank.

28. Dividends paid and proposed

On 13 September 2012, a dividend of €0.85 per share was paid in respect of 14,190,432 shares, *i.e.* a total dividend of €12,061,867.20 for the 2011/2012 financial year.

The difference between the number of shares in respect of which dividends were paid and the total shares making up the share capital, *i.e.* 423,720 shares, corresponds to the treasury shares held by Faiveley Transport at the time of the distribution of the dividend.

	Number of shares	Treasury shares	Number of shares to which dividends have been paid	Dividends paid
Ordinary shares	6,538,272	423,720	6,114,552	5,197,369
Shares with double voting rights	8,075,880	-	8,075,880	6,864,498
	14,614,152	**423,720**	**14,190,432**	**12,061,867***

* *Including €5,368,104 to Financière Faiveley and €985,395 to François Faiveley Participation (FFP).*

In respect of the 2012/2013 financial year, the General Meeting will be asked to approve the payment to shareholders of a dividend of €13,883,444.40, being €0.95 per share. This distribution will be taken from the account "Retained Earnings". It will be payable with effect from 19 September 2013. This dividend was not recognised as a liability at 31 March 2013.

F. OFF-BALANCE SHEET COMMITMENTS (€ THOUSANDS)

1. Leases

OPERATING LEASES

The operating leases entered into by the Faiveley Transport Group relate mainly to buildings and furniture.

The income and expenses recognised in respect of operating leases over the last two financial years break down as follows:

	2012/2013	2011/2012
Operating lease expenses	(11,482)	(10,575)
Sub-letting income	538	484
TOTAL	**(10,944)**	**(10,091)**

The future minimum payments to be made in respect of operating leases which are non-cancellable and had not expired as at 31 March 2012 are as follows:

	Under 1 year	1 to 5 year	Over 5 years
Total future rents	9,207	26,910	17,344

2. Other commitments given

	2012/2013	2011/2012
Deposits, securities and bank guarantees given to customers	217,778	226,377
Guarantees and securities given by the parent company to customers	409,970	403,046
Borrowings guaranteed by pledges:		
• Mortgages of buildings	175	7,685

The off-balance sheet commitments above entitled "Deposits, securities and bank guarantees" is related to guarantees or securities provided to the banks essentially in favour of customers with whom commercial contracts have been signed. These guarantees are generally issued for defined periods and for defined amounts. These are principally guarantees for the repayment of deposits and guarantees for the satisfactory completion of contracts. Bank counter-guarantees may be issued for the benefit of banks supplying credit lines, and guarantees may also be issued for the benefit of certain subsidiaries of the Group.

The off-balance sheet commitments above entitled “Guarantees and securities given by the parent company” are guarantees agreed by the parent company Faiveley Transport in favour of customers who have signed commercial contracts with subsidiaries of the Group. As for bank guarantees, these are issued for defined periods and for defined amounts and essentially relate to guarantees for the repayment of deposits and guarantees for the satisfactory completion of contracts.

3. Commitments received

- Other guarantees from suppliers: €2,752 thousand.

G. CONSOLIDATION SCOPE AND METHODS

1. Listing of consolidated companies and consolidation methods

Faiveley Transport is the Group’s holding company.

The following companies, in which Faiveley Transport directly or indirectly controls more than 50% of the share capital, are fully consolidated.

	Country	% control	% interest
Parent company			
Faiveley Transport			
Full consolidation			
Faiveley Transport Leipzig GmbH & Co. KG(1)	Germany	100.00	100.00
Faiveley Transport Witten GmbH(1)	Germany	100.00	100.00
Faiveley Transport Verwaltungs GmbH(1)	Germany	100.00	100.00
Faiveley Transport Holding GmbH & Co. KG(1)	Germany	100.00	100.00
Nowe GmbH(1)	Germany	75.00	75.00
Faiveley Transport Australia Ltd.	Australia	100.00	100.00
Faiveley Transport Belgium NV	Belgium	100.00	100.00
Faiveley Transport Do Brasil Ltda.	Brazil	100.00	100.00
Faiveley Transport Canada Ltd.	Canada	100.00	100.00
Faiveley Transport Chile Ltda.	Chili	100.00	99.99
Faiveley Transport Systems Technology (Beijing) Co. Ltd.	China	100.00	100.00
Faiveley Transport Far East Ltd.	China	100.00	100.00
Shanghai Faiveley Railway Technology Co. Ltd.	China	51.00	51.00
Faiveley Transport Metro Technology Shanghai Ltd.	China	100.00	100.00
Faiveley Transport Railway Trading (Shanghai) Co. Ltd.	China	100.00	100.00
Faiveley Transport Asia Pacific Co. Ltd.	China	100.00	100.00
Faiveley Transport Korea Ltd.	Korea	100.00	100.00
Faiveley Transport Ibérica SA	Spain	100.00	100.00
Faiveley Transport USA Inc.	USA	100.00	100.00
Ellcon National Inc.	USA	100.00	100.00
Ellcon Drive LLC	USA	100.00	100.00
Amsted Rail – Faiveley LLC	USA	67.50	67.50
Graham-White Manufacturing Co.	USA	100.00	100.00
Omni Group Corporation	USA	100.00	100.00
Advanced Global Engineering LLC	USA	100.00	55.00
ATR INvestments LLC	USA	100.00	60.00
Faiveley Transport Amiens	France	100.00	100.00
Faiveley Transport NSF	France	100.00	100.00
Faiveley Transport Tours	France	100.00	100.00

	Country	% control	% interest
Faiveley Transport Gennevilliers	France	100.00	100.00
Faiveley Transport Birkenhead Ltd.	United Kingdom	100.00	100.00
Faiveley Transport Tamworth Ltd.	United Kingdom	100.00	100.00
Sab Wabco Ltd.	United Kingdom	100.00	100.00
Sab Wabco David & Metcalf Ltd.	United Kingdom	100.00	100.00
Sab Wabco David & Metcalf Products Ltd.	United Kingdom	100.00	100.00
Sab Wabco Investments Ltd.	United Kingdom	100.00	100.00
Sab Wabco Products Ltd.	United Kingdom	100.00	100.00
Sab Wabco UK Ltd.	United Kingdom	100.00	100.00
Faiveley Transport Rail Technologies India Ltd.	India	100.00	100.00
FMRP	Iran	51.00	51.00
Faiveley Transport Italia Spa	Italy	100.00	98.70
Faiveley Transport Polska z.o.o.	Poland	100.00	100.00
Faiveley Transport Plzen s.r.o.	Czech Republic	100.00	100.00
Faiveley Transport Tremosnice s.r.o.	Czech Republic	100.00	100.00
Faiveley Transport Lekov a.s	Czech Republic	100.00	100.00
o.o.o Faiveley Transport	Russia	100.00	98.00
Faiveley Transport Metro Technology Singapore Ltd.	Singapore	100.00	100.00
Faiveley Transport Acquisition AB	Sweden	100.00	100.00
Faiveley Transport Malmö AB	Sweden	100.00	100.00
Faiveley Transport Nordic AB	Sweden	100.00	100.00
Faiveley Transport Schweiz AG	Switzerland	80.00	80.00
Faiveley Transport Metro Technology Thailand Ltd.	Thailand	100.00	100.00
Faiveley Transport Metro Technology Taiwan Ltd.	Taiwan	100.00	100.00
Proportional consolidation			
Qingdao Faiveley SRI Rail Brake Co. Ltd.	China	50.00	50.00
Datong Faiveley Couplers Systems Co. Ltd.	China	50.00	50.00
Shijiazhuang Jiaxiang Precision Machinery Co. Ltd.	China	50.00	50.00
Accounted for under the equity method			
Nil			

(1) Faiveley Transport Leipzig GmbH & Co. KG, Faiveley Transport Witten GmbH, Faiveley Transport Verwaltungs GmbH, Faiveley Transport Holding GmbH & Co. KG and Nowe GmbH, as subsidiaries of the Faiveley Transport Group responsible for the preparation of the consolidated financial statements, made use of the provisions of paragraph 264b of the German Commercial Code as regards the closing of accounts for the year ended 31 March 2013 and the related annual report, given that the financial statements and annual report will not be published.

LEGAL DEVELOPMENTS ARISING DURING THE FINANCIAL YEAR

The 2012/2013 financial year saw a merger between Faiveley Transport Ibérica SA (acquiring company) and Transequipos SA. For accounting and tax purposes, this merger is retroactive to 1 April 2012.

2. List of non-consolidated companies at 31 March 2013

(€ thousands)	% owned	Net book value of investment Gross	Impairment	Net	Equity	Net loss
Suecobras (Brazil)	100	863	(666)	197	145	(16)
Sab Wabco Sharavan Ltd. (Iran)	49	11	(11)	-	-	-
Sofaport (France)	59.50	47	-	47	24	(1)
Faiveley Transport Service Maroc	100	-	-	-	(48)	(51)
Faiveley Transport South Africa	100	-	-	-	-	-

H. STATUTORY AUDITORS' FEES

Fees payable to the Statutory Auditors and members of their network as part of assignments relating to the financial statements at 31 March 2013 and 31 March 2012 were as follows:

	ECA		PWC	
	2012/2013	2011/2012	2012/2013	2011/2012
Audit:				
Statutory Auditors, certification, review of individual and consolidated financial statements:				
• Parent company	161	150	210	200
• Subsidiaries	109	113	692	553
Other assignments directly related to the audit assignment	2	2	2	-
SUB-TOTAL AUDIT FEES	**272**	**265**	**904**	**753**
Other services				
Legal, tax, corporate	-	-	16	-
Other	-	-	29	-
SUB-TOTAL OTHER SERVICES	**-**	**-**	**45**	**-**
TOTAL	**272**	**265**	**949**	**753**

I. FINANCIAL COMMUNICATION

A German version of these consolidated financial statements has been filed with the local administration.

3. STATUTORY AUDITORS' REPORT

on the consolidated financial statements
(For the year ended 31 March 2013)

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information presented below is the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,
Faiveley Transport SA
Le Delage Building
3 rue du 19 mars 1962
92230 Gennevilliers

In compliance with the assignment entrusted to us by the Annual General Meeting, we hereby report to you, for the year ended 31 March 2013, on:

- the audit of the accompanying consolidated financial statements of Faiveley Transport SA;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance regarding whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence regarding the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 March 2013 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (Code de Commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- At the year-end, the Group performs impairment testing on goodwill and intangible assets with indefinite lives and assesses whether there is an indication of impairment of non-current assets, in accordance with the terms and conditions described in Notes C.7.1, C.9 and E.1 of the appendix to the consolidated financial statements. We have reviewed the methods for implementing this impairment testing, the cash flow forecasts and assumptions used by the management, as well as estimates resulting from the latter. We have also verified that Notes C.7.1, C.9 and E.1 provide appropriate disclosure.
- The Group recognises income generated on contracts using the percentage of completion method in accordance with the terms and conditions described in Note C.6.1 of the appendix to the consolidated financial statements. These results are determined based on costs and revenue associated with the contracts, as estimated by executive management. Based on the information provided to us, our work consisted in assessing the financial information and the assumptions on which these estimates have been based, in reviewing the calculations performed by the Group, in comparing estimates of revenue on completion from previous periods with actual results, and in examining the procedures used by executive management to approve these estimates.
- The Group records provisions to cover miscellaneous liabilities and charges as described in Note C.15.2 of the appendix to the consolidated financial statements. Based on the information available, our work consisted in examining the procedures used by executive management to evaluate and identify the risk, to appreciate, by sampling, the financial information and the assumptions on which theses estimates have been based, and to verify that the appendix to the consolidated financial statements disclose appropriate information. On this basis, we assessed the reasonableness of estimates made.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we have formed, which is expressed in the first part of this report.

III. SPECIFIC VERIFICATION

As required by law, we also verified in accordance with professional standards applicable in France the information presented in the Group's management report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Dijon, 12 July 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Expertise Comptable et Audit
Philippe Vincent	Jérôme Burrier

4. PARENT COMPANY FINANCIAL STATEMENTS

At 31 March 2013

4.1 BALANCE SHEET

ASSETS

(€ thousands)	Notes	31 March 2013 Gross	31 March 2013 Amort., depr. and prov. charges	31 March 2013 Net	31 March 2012 Net
Non-current assets					
Intangible assets					
Other intangible assets	C. 1	392,853	5,853	387,001	387,289
In progress	C. 1	15,290	-	15,290	12,277
Property, plant and equipment					
Buildings	C. 1	-	-	-	-
Plant and machinery	C. 1	39	1	38	38
Other	C. 1	821	159	662	693
Financial assets		-	-	-	-
Equity investments	C. 2	501,427	-	501,427	499,919
Loans and receivable from equity investments	C. 2	161,195	-	161,195	156,705
Other equity investments	C. 2	407	-	407	555
TOTAL (I)		**1,072,031**	**6,012**	**1,066,019**	**1,057,476**
Current assets					
Receivables					
Advances and prepayments received	C. 3	27	-	27	47
Trade receivables	C. 3	49,665	-	49,665	47,310
Other receivables(1)	C. 3	29,662	-	29,662	6,246
Tax consolidation	C. 3	1,287	-	1,287	55
Cash and cash equivalents					
Marketable securities (2)	C. 4	18,943	357	18,585	31,653
Cash and cash equivalents(3)	C. 4	313,134	-	313,134	302,644
Prepaid expenses	C. 11	542	-	542	561
Translation difference		237	-	237	69
TOTAL (II)		**413,495**	**357**	**413,138**	**388,585**
TOTAL ASSETS (I + II)		**1,485,527**	**6,370**	**1,479,157**	**1,446,061**

(1) Including treasury shares of €18,555 thousand.
(2) Including treasury shares held within the framework of the liquidity contract of €635 thousand.
(3) Including accrued Wabtec compensation of €12,322 thousand.

EQUITY AND LIABILITIES

(€ thousands)	Notes	31 March 2013 before allocation	31 March 2012 before allocation
Equity			
Share capital	C. 5	14,614	14,614
Share premium	C. 5	104,954	104,954
Legal reserve	C. 5	1,461	1,440
Regulated reserves	C. 5	-	-
Other reserves	C. 5	-	-
Retained earnings	C. 5	44,715	67,796
Net profit/(loss)	C. 5	26,762	(10,999)
Regulated provisions	C. 6	-	-
TOTAL EQUITY (I)		**192,508**	**177,807**
Provisions for liabilities and charges	C. 6	2,396	1,884
TOTAL (II)		**2,396**	**1,884**
Liabilities			
Loans and borrowings			
Bond-type issue	C. 7	58,278	-
Loans and borrowings from credit institutions	C. 7	617,164	707,551
Other loans and borrowings	C. 7	573,680	530,724
Other liabilities			
Trade payables	C. 8	17,526	14,987
Tax and social liabilities	C. 8	11,077	7,321
Other liabilities	C. 8	3,740	2,842
Deferred income	C. 11	-	-
Translation difference		2,788	2,945
TOTAL (III)		**1,284,253**	**1,266,371**
TOTAL EQUITY AND LIABILITIES (I + II + III)		**1,479,157**	**1,446,061**

4.2 INCOME STATEMENT

(€ thousands)	Notes	31 March 2013	31 March 2012
SALES (EX. VAT)	C. 12	56,747	52,681
Cost of sales		(48,256)	(44,859)
Gross profit		**8,492**	**7,822**
Non-productive fixed costs*		(4,773)	(10,113)
Other income		741	831
Other expenses		(399)	(138)
Restructuring costs		-	-
OPERATING PROFIT/(LOSS)		4,061	(1,599)
Amortisation and depreciation charges included in operating profit/(loss)		818	918
Operating profit/(loss) before amortisation and depreciation charges		**4,879**	**(681)**
Net finance income/(expenses)	C. 15	27,282	(9,992)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES		31,343	(11,591)
NET EXCEPTIONAL INCOME/(EXPENSE)	C. 16	(46)	(243)
Employee profit-sharing		-	-
Income tax	C. 17	(4,534)	835
NET PROFIT/(LOSS)		**26,762**	**(10,999)**

** Net fixed costs offset by Wabtec compensation income of €4,111 thousand.*

4.3 CASH FLOW STATEMENT

(€ thousands)	Notes	31 March 2013	31 March 2012
Cash flow from operating activities:			
Net profit/(loss)		26,762	(10,999)
Adjustment for non-cash items:			
• Depreciation and amortisation charges		818	918
• Provision charges		2,510	2,235
• Provision reversals		(2,273)	(681)
• Gains/(losses) on asset disposals		-	25
• Reversal of debt write-off		2,563	-
SELF-FINANCING CAPACITY		**30,380**	**(8,502)**
Gross change in operating assets and liabilities:			
• Decrease/(increase) in receivables		(27,131)	(7,958)
• Increase/(decrease) in payables and accrued expenses		7,037	(4,918)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**10,286**	**(21,378)**
Cash flow from investment activities			
Purchase of PPE and intangible assets		(3,512)	(4,313)
Proceeds from disposal of PPE and intangible assets		-	-
Purchase of financial investments		(1,508)	(82,038)
Proceeds from sale of financial investments		3,549	11,170
Cash arising from acquisitions of subsidiaries		-	-
NET CASH USED IN INVESTMENT ACTIVITIES		**(1,471)**	**(75,181)**
Proceeds from share capital increases		-	-
Other movements in equity		-	-
Cash dividends paid		(12,062)	(16,738)
Proceeds from new borrowings		58,278	94,000
Repayment of borrowings		(138,339)	(47,948)
Movement in Group current accounts		42,659	56,985
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**(49,464)**	**86,299**
Net increase/(decrease) in cash and cash equivalents		**(40,649)**	**(10,260)**
Cash and cash equivalents at the start of the period		48,216	58,476
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**C. 4**	**7,567**	**48,216**

4.4 NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

Notes to the parent company financial statements at 31 March 2013. Total assets on this date amounted to €1,479,157 thousand, and the income statement reflected a net profit of €26,762 thousand. The financial period was of 12 months and covered the period from 1 April 2012 to 31 March 2013.

A. SIGNIFICANT EVENTS

Bond issue

To partly refinance the acquisition of US company Graham-White Manufacturing Co., completed on 3 February 2012, and diversify its financing sources, on 12 April 2012 the Group finalised its first private placement bond issue in the US with two institutional investors, for a total of US$75 million. This bond issue was made up of two tranches: one for US$30 million, with a 10-year final maturity and redeemable between 2017 and 2022, and a US$45 million bullet loan with a 10-year maturity. The average fixed interest is 4.91% per year.

Wabtec legal action

Faiveley Transport won its legal action against Wabtec in the United States. On 6 February 2013, the New York Court of Appeals upheld the jury's verdict against Wabtec, awarding the companies Faiveley Transport USA, Faiveley Transport Nordic, Faiveley Transport Amiens and Ellcon National US$15 million plus US$0.8 million in interest. This decision particularly punishes the trade secret misappropriation, acts of unfair competition and unjust enrichment relating to the manufacture of brake cylinders and actuators that make up brake systems.

In accounting terms, the Wabtec accrued income was recorded in the balance sheet under "Other receivables" in the amount of €12.3 million (US$15.8 million) with the €8.2 million portion to be retroceded to the subsidiaries recorded as other loans and borrowings. In the income statement, only the amount corresponding to fees incurred by Faiveley Transport since litigation began was recognised as a reduction of fixed costs for €4.1 million. This was offset by additional fees of €2.3 million recognised as fixed costs during the financial year.

Free share allocation plans

The Combined General Meeting of 14 September 2012 delegated authority to the Management Board to proceed with the allocation of free ordinary shares in the Company, either in existing shares or shares to be issued, within the limit of 1% of the share capital on the date of the General Meeting.

During the financial year, this authorization gave rise to:

- the allocation of free performance-based shares by the Management Board of 24 October 2012 (10,000 shares);
- the implementation of a free share allocation plan as part of an employee shareholding plan by the Management Board of 3 December 2012 (72,386 shares).

The terms and conditions of allocation of the two new plans are set out in paragraph C. Notes to the balance sheet and the income statement under 5.1 Share capital.

B. ACCOUNTING RULES AND METHODS

1. Application of accounting rules and methods

The financial statements at 31 March 2013 have been prepared in accordance with accounting rules applicable in France:

- the Law of 30 April 1983 and its application decree of 29 November 1983;
- the French General Accounting Plan 1999 as described by regulation 1999-03 of the Comité de la Réglementation Comptable and subsequent amendments.

The financial statements and the analyses for the year ended 31 March 2013 have been prepared and presented in accordance with accounting rules and in compliance with the principles of:

- prudence;
- independence of financial years;
- going concern;
- consistency of methods.

The historical cost method was used to determine accounting values.

2. Change of methods during the year

No changes of methods have been introduced by the Company during the year.

3. Measurement methods

The measurement methods described below have been used for the various items included in financial statements.

The financial statements have been prepared taking account of the following provisions applicable to financial years beginning on or after 1 January 2005:

- CRC regulation n°2002-10 on asset amortisation and impairment;
- CRC regulation n°2004-06 on the definition, recognition and measurement of assets.

3.1 NON-CURRENT ASSETS

Non-current assets are recognised at their acquisition cost or at their transfer value in the case of those related to the restructuring operations of previous financial years. In order to recognise an unfavourable technical variance, the latter must be assessed at each year-end. In case there is an indication of impairment, a writedown charge must be recognised in the financial statements.

3.2 AMORTISATION AND DEPRECIATION OF NON-CURRENT ASSETS

Depreciation and amortisation of non-current assets are measured on a straight-line basis.

The principal periods of amortisation and depreciation are as follows:

- Intangible assets

– Software:	1 to 10 years
– Patents:	9 to 15 years

- Property, plant and equipment

– Buildings:	15 to 20 years
– Misc. equipment and fittings:	10 years
– Machinery and industrial equipment:	3 to 8 years
– Vehicles:	4 years
– Office equipment:	3 to 10 years
– IT equipment:	3 to 5 years
– Furniture:	5 to 10 years

3.3 EQUITY INVESTMENTS

Equity investments are measured at their purchase and/or contribution value. At the end of the financial year, a provision for impairment is established when the realisable value is lower than its acquisition value. The realisable value is the value in use for the Group, measured on the basis of future discounted cash flows.

3.4 RECEIVABLES FROM EQUITY INVESTMENTS

Receivables from equity investments correspond to loans provided to Group companies, as well as current accounts receivable from subsidiaries (excluding current tax receivables resulting from the Group's tax consolidation). A provision is established whenever there is a risk of non-recovery.

3.5 ACCOUNTS RECEIVABLE AND PAYABLE

Accounts receivable and payable are recorded at nominal value. Provisions have been made for bad and doubtful debts according to the likelihood of non-recovery, as estimated at the end of the financial year. Old accounts for which non-recovery has become a certainty are written off as an expense and the corresponding provisions reversed through the income statement.

3.6 MARKETABLE SECURITIES

Marketable securities are recognised at their fair value on the basis of their quoted price or at their liquidation value at the year-end. Marketable securities are subject to impairment when their liquidation value at the financial year-end is lower than their acquisition value.

Treasury shares are included in this caption in accordance with CRC Regulation 2008-15 on treasury shares.

The value of treasury shares unallocated to the various share purchase and subscription plans and free share allocation plans is written down based on the average share price noted over the last month of the financial year.

3.7 SHARE CAPITAL

All capital increases are registered at the nominal value of the shares issued. Should the issue price be greater than the nominal value, the difference is recorded in the share premium reserve.

3.8 PROVISIONS FOR LIABILITIES AND CHARGES

Provisions represent liabilities whose due date or amount has not been precisely determined. At 31 March 2013, the provisions amounted to €2,396 thousand and included:

- provisions for stock option and free share allocation plans of €1,596 thousand;
- provisions for litigations of €554 thousand;
- unrealised exchange losses of €237 thousand (discounted based on foreign-denominated liabilities and trade receivables and valued at the closing rate);
- seniority awards of €9 thousand.

3.9 SHARE PURCHASE OPTION PLAN OF 27 SEPTEMBER 2005

When beneficiaries of the share purchase option plan exercise their rights, a capital loss will be recognised in Faiveley Transport's financial statements. This loss has been estimated at €599 thousand at 31 March 2009 and spread over 7 years (the duration of the plan). At 31 March 2013, this provision was revised to €2 thousand based on options exercised and outstanding. During the 2012/2013 financial year, 20,039 options were exercised by their beneficiaries. On this occasion, an exceptional expense of €46 thousand and a €49 thousand provision reversal were recognised.

3.10 SHARE SUBSCRIPTION OPTION PLAN OF 22 SEPTEMBER 2009

When shares are subscribed to, a capital loss will be recognised in Faiveley Transport's financial statements in the case the purchase price of the shares allocated to this plan exceeds the subscription price. This loss has been estimated at €433 thousand at 31 March 2013, weighted by an exercise probability of 90% and spread *pro rata* according to the number of days which have passed, out of the 8 years of duration of the plan. At 31 March 2013, a provision of €37 thousand was recognised under personnel costs, thus increasing this provision to a total of €171 thousand.

3.11 FREE PERFORMANCE-BASED SHARE ALLOCATION PLAN AUTHORISED BY THE GENERAL MEETING OF 13 SEPTEMBER 2010

Shares have been allocated and the €1,665 thousand purchase value of the shares earmarked for this plan was recognised as a capital loss under personnel costs in the financial statements of Faiveley Transport. The €1,257 thousand provision established under personnel costs at 31 March 2012 for the estimated capital loss was reversed. The net impact for the year 2012/2013 was €408 thousand.

3.12 FREE SHARE ALLOCATION PLAN AUTHORISED BY THE GENERAL MEETING OF 14 SEPTEMBER 2011

When shares are allocated, a capital loss will be recognised in Faiveley Transport's financial statements for the purchase price of the shares allocated to this plan. This loss has been estimated at €4,597 thousand at 31 March 2013, weighted by a vesting probability of 55% and spread *pro rata* according to the number of days which have passed out of the 2- or 4-year vesting periods of the plan. At 31 March 2013, a €1,029 thousand provision was established under personnel costs, thus increasing this provision to a total of €1,103 thousand.

3.13 FREE SHARE ALLOCATION PLAN AUTHORISED BY THE GENERAL MEETING OF 14 SEPTEMBER 2012

- Allocation of free performance-based shares by the Management Board of 24 October 2012

  When shares are allocated, a capital loss will be recognised in Faiveley Transport's financial statements for the purchase price of the shares allocated to this plan. This loss has been estimated at €602 thousand at 31 March 2013, weighted by a vesting probability of 55% and spread *pro rata* according to the number of days which have passed out of the 2-year vesting periods of the plan. At 31 March 2013, a €72 thousand provision was established under personnel costs.

- Implementation of a free share allocation plan as part of an employee shareholding plan by the Management Board of 3 December 2012.

When shares are allocated, a capital loss will be recognised in Faiveley Transport's financial statements for the purchase price of the shares allocated to this plan. This loss has been estimated at €4,395 thousand at 31 March 2013, weighted by a vesting probability of 55% and spread pro rata according to the number of days which have passed out of the 2-year vesting periods of the plan. At 31 March 2013, a €248 thousand provision was established under personnel costs.

3.14 LOANS AND BORROWINGS

Loans and borrowings are valued at their nominal value and comprise:

- the €56.9 million bond-type issue (US private placement);
- a loan of €292.6 million provided by the bank pool to finance the reorganisation of Faiveley Transport's shareholding structure in 2008;
- accrued interest on financial debt of €1.4 million;
- bank overdrafts of €12.2 million and cash pooling (managed by the Group Treasury Department) of €312.3 million;
- a loan of €10.2 million from its subsidiary Faiveley Transport Malmö;
- current accounts with Group companies of €563.4 million;
- the balance on the special reserve for employee profit-sharing of €0.06 million.

3.15 FINANCIAL INSTRUMENTS

Exchange risk

Due to the nature of its operations, Faiveley Transport is exposed to exchange risks arising from its holding company activities (including exchange hedging for the benefit of subsidiaries), from its loan agreements and on inter-company balances.

In 2012/2013, the major currencies concerned are the US Dollar, the Pound Sterling, the Czech Koruna, the Swedish Krona and the Chinese Yuan. The risks are hedged through forward purchases or sales of currencies and tunnel options.

These external hedge transactions aim to protect the Group against unfavourable fluctuations in foreign currencies that could affect the profit on a contract and are subject to an internal counterpart agreement with subsidiaries.

Information on financial derivatives currently in place to hedge against exchange risk on forward purchases or sales are detailed in the notes to the consolidated financial statements (see Note E.14 – Financial instruments and financial risk management).

Interest rate risk

The syndicated debt, excluding the revolving facility, is indexed on variable USD Euribor and Libor interest rates and can be hedged in accordance with the Group's interest rate risk policy. All revolving facilities, drawn or undrawn, bear a variable rate and are not subject to interest hedges. The same applies to the US private placement bond issue, which bears a fixed rate.

To manage its risk, the Treasury Department has implemented a hedging strategy using interest rate swaps, tunnels, caps and options.

The exposure of interest rates on Euro-denominated syndicated debt is hedged for between 77% and 83% of the total debt bearing a Euro interest rate, depending on fluctuations for the 2013/2014 period.

The syndicated debt denominated in US dollars is no longer being hedged. However, taking into account the "US private placement" bond issue, the hedged ratio, *i.e.*: amount of fixed-rate debt over total USD-denominated debt, is 74% for the period 2013/2014.

The estimated cost of syndicated debt in 2013/2014 is 1.94%, including hedges and spreads for the debt in Euros, and 3.87% for the debt in US dollars, which includes the US Private Placement. The Group's total cost of debt for 2013/2014 is therefore estimated at 2.5%.

Foreign exchange transactions

Income and expenses in foreign currencies are recorded at the exchange rate on the transaction date.

Foreign currency-denominated borrowings, receivables and cash are recorded in the balance sheet at the exchange rate on the balance sheet date. Any exchange difference arising from the revaluation of these items at these exchange rates is taken to "translation differences".

The unrealised exchange loss resulting from the determination of an overall foreign exchange position on assets and liabilities held on the balance sheet date is subject to a provision for foreign exchange risk.

3.16 INCOME STATEMENT

Faiveley Transport continues its activities of providing services to the Group as the holding company. Sales of €56.7 million achieved in 2012/2013 represented an increase of €4 million compared to €52.7 million reported in the previous year.

Costs incurred by Faiveley Transport for services provided to subsidiaries were rebilled. The operating profit was €4 million, compared to a loss of €1.6 million in 2011/2012. This improvement is mainly due to the net income of €1.7 million relating to the Wabtec compensation received (whilst for the previous financial year €0.6 million in fees had been recognised) by the rebilling of the final charge of €1.3 million to the subsidiaries due to the allocation of free shares which ended in December 2012, as well as better control of certain expense items.

The net finance income was €27.3 million, compared to a net expense of €10 million in the previous year. In 2012/2013, dividends of €37.5 million were collected, compared to €1.3 million in 2011/2012, due to the implementation of a more active policy relating to the transfer of the dividends of subsidiaries from the 2012/2013 financial year onwards.

Excluding dividends, the net finance income increased by €1.2 million. This was primarily due to the €2.1 million decrease in interest expense, foreign exchange gains of €0.6 million, a €0.8 million positive movement in financial provision reversals and charges, offset by the waiver of a €2.6 million financial liability in relation to its subsidiary o.o.o Faiveley Transport.

The €4.5 million income tax charge recognised in the year to 31 March 2013 reflects the tax consolidation charge of €0.6 million recorded during the period, increased by the €3.9 million corporate tax charge generated by the German subsidiaries, Faiveley Transport Holding GmbH & Co. KG and Faiveley Transport Leipzig GmbH & Co. KG.

C. NOTES TO BALANCE SHEET AND INCOME STATEMENT

Figures are expressed in thousands of Euros unless indicated otherwise.

1. Non-current assets

CHANGES IN THE PERIOD

	Gross at 1 April 2012	Acquisitions	Disposals	Gross at 31 March 2013
Intangible assets*	392,415	438	-	392,853
Intangible assets in progress	12,277	3,013	-	15,290
General fittings, fixtures and miscellaneous	606	4	-	610
Equipment, office and computer equipment, furniture	193	57	-	250
Advances and prepayments on non-current assets	-	-	-	-
TOTAL	**405,491**	**3,512**	**-**	**409,003**

** This caption includes the €384.8 million unfavourable technical variance recognised as part of the transfer of all assets and liabilities of Faiveley Transport and Faiveley Management during the financial year ended 31 March 2009. This technical variance was subject to an impairment test at 31 March 2013, which did not highlight the need for a writedown charge to be recognised in the financial statements.*
The remainder of this heading primarily includes IT software development costs.

AMORTISATION, DEPRECIATION AND WRITEDOWNS

	At 1 April 2012	Charges	Decreases	At 31 March 2013
Intangible assets	5,126	727	-	5,853
General fittings, fixtures and miscellaneous	40	56	-	96
Equipment, office and computer equipment, furniture	29	34	-	63
TOTAL	**5,195**	**817**	**-**	**6,012**

2. Financial investments

CHANGES IN THE PERIOD

	Gross at 1 April 2012	Acquisitions/ Increases	Disposals/ Decreases	Gross at 31 March 2013
Equity investments	499,919	1,508*	-	501,427
Loans receivable from equity investments	156,705	9,798	(5,308)	161,195
Other equity investments	555	45	(193)	407
TOTAL	**657,179**	**11,351**	**(5,501)**	**663,029**

** This increase was due to the payment in full of the capital of the Chinese subsidiary Faiveley Transport Systems Technology (Beijing) for €1.5 million.*

MATURITY OF RECEIVABLES

	Less than 1 year	Between 1 and 5 years	More than 5 years	Net at 31 March 2013
Loans and receivables from equity investments	64,116	49,699	47,380	161,195
Other equity investments	10	108	289	407
TOTAL	**64,126**	**49,807**	**47,669**	**161,602**

3. Receivables

	Less than 1 year	More than 1 year	Net at 31 March 2013	Net at 31 March 2012
Trade and other accounts receivable	49,665	-	49,665	47,310
Other receivables – advances and prepayments*	29,662	-	29,662	6,293
Tax consolidation	1,287	-	1,287	55
TOTAL	**80,614**	**-**	**80,614**	**53,658**

** Including accrued Wabtec compensation of €12,322 thousand, of which €8,211 thousand is to be transferred to subsidiaries.*

4. Cash and marketable securities (gross)

	31 March 2013	31 March 2012
Marketable securities(1)	18,943	32,285
Cash(2)	313,134	302,644
Bank overdrafts	(324,510)	(286,714)
TOTAL	**7,567**	**48,215**

(1) Of which treasury shares of €18,555 thousand (gross), including a writedown of €356 thousand calculated in accordance with the method specified in § 3.6.
(2) Including treasury shares held within the framework of the liquidity contract for €635 thousand.

5. Equity

	Share capital	Share premium	Reserves	Retained earnings	Profit/(loss) for the year	Total
BALANCE AT 31 MARCH 2011	**14,405**	**94,045**	**1,440**	**86,292**	**(1,757)**	**194,425**
Allocation of 2010/2011 profit	-	-	-	(1,757)	1,757	-
Dividends paid	-	-	-	(16,737)	-	(16,737)
Profit/(loss) for the year	-	-	-	-	(10,999)	(10,999)
Other movements*	209	10,909	-	-	-	11,118
BALANCE AT 31 MARCH 2012	**14,614**	**104,954**	**1,440**	**67,798**	**(10,999)**	**177,807**
Allocation of 2011/2012 profit	-	-	21	(11,020)	10,999	-
Dividends paid	-	-	-	(12,062)	-	(12,062)
Profit/(loss) for the year	-	-	-	-	26,762	26,762
Other movements	-	-	-	-	-	-
BALANCE AT 31 MARCH 2013	**14,614**	**104,954**	**1,461**	**44,716**	**26,762**	**192,507**

** Capital increase relating to the payment in shares of part of the acquisition of Graham-White Manufacturing Co.'s securities.*

5.1 SHARE CAPITAL

At 31 March 2013, the share capital of the Company was €14,614,152, divided into 14,614,152 shares of €1 each, fully paid up. Nominative shares recorded in the name of the same holder for at least two years (8,021,532 shares at 31 March 2013) benefit from a double voting right.

Analysis of share capital

Shares	Nominal Value	31 March 2012	Created	Granted double voting rights	31 March 2013
Ordinary	1	6,661,370	-	(68,750)	6,592,620
Amortised	-	-	-	-	-
With priority dividends	-	-	-	-	-
With double voting rights	1	7,952,782	-	68,750	8,021,532
TOTAL	**1**	**14,614,152**	**-**	**-**	**14,614,152**

Treasury shares

At 31 March 2013, the Company held 382,050 treasury shares, including 12,392 through its liquidity contract. These shares accounted for 2.61% of the share capital. Out of these 382,050 shares, 338,690 were earmarked for the various stock option and free share plans.

Employee shareholding

FCPE Faiveley Actions holds 15,360 shares (0.1%) in the Company.

Share purchase option plan of 27 September 2005

On request from Faiveley Transport, Faiveley SA (now called Faiveley Transport) implemented a share purchase option plan for the benefit of key Faiveley Transport Group Management (excluding the managers who invested in Faiveley Management).

This share purchase option plan, for a maximum of 325,000 Faiveley SA shares, was approved by the General Meeting of 27 September 2005. Granted for a period of thirty-eight months.

The options to purchase shares, if exercised, will give rise to the purchase of existing ordinary shares in Faiveley Transport.

↗ MAIN FEATURES OF THE CURRENT SHARE PURCHASE OPTION PLAN

Date of allocation	Number of shares allocated	Subscription price(1)	Options cancelled	Options exercised	Number of options outstanding	Of which to Executive Committee members(2)
24 November 2005	221,760	26.79	47,040	174,720	-	-
29 December 2005	6,720	29.75	-	6,720	-	-
22 June 2006	31,360	30.48	4,480	21,958	4,922	-
25 October 2006	6,720	33.77	-	6,720	-	-
15 November 2006	4,480	34.13	-	4,480	-	-
1 December 2006	11,200	34.01	-	7,456	3,744	-
2 April 2007	26,880	42.80	-	11,220	15,660	-
19 February 2008	26,880	32.31	-	20,920	5,960	-
29 March 2008	13,440	34.08	4,480	4,850	4,110	-
16 July 2008	22,600	40.78	-	-	22,600	22,600
TOTAL	**372,040**		**56,000**	**259,044**	**56,996**	**22,600**

(1) The exercise price is equal to the average price of the twenty trading days prior to the date of the Management Board deciding on the allocation, less a discount of 5%.
(2) Including members of the Management Board.

Following the departure of certain option holders since the Management Board implemented the plan and options exercised until that date, options exercisable at 31 March 2013 related to 56,996 shares and 10 beneficiaries.

The options can be exercised from the second anniversary of their grant date by the Chairman of the Management Board, subject to the presence of the beneficiaries within the Faiveley Transport Group on the day of exercise and their acceptance of the option regulations. To date, 259,044 options have been exercised.

Share subscription plan of 22 September 2009

The Combined General Meeting of 22 September 2009 delegated the Management Board powers in relation to:

- granting share subscription and/or purchase options;
- issuing shares or marketable securities giving right to the allocation of new or already issued shares of the Company, with, in the case of the allocation of new shares, the cancellation of the pre-emption right.

At its meeting of 23 November 2009, the Management Board decided to allocate, from that date and up to 23 November 2017, options giving right to subscribe for new shares of the Company, to be issued as part of a capital increase, for a total amount not exceeding €144,000, corresponding to 144,000 new shares of a par value of €1 each. The new shares will be issued at a price of €54.91 each.

MAIN FEATURES OF THE CURRENT SHARE SUBSCRIPTION OPTION PLAN:

Date of allocation	Number of shares allocated	Subscription price	Options cancelled	Options exercised	Number of options outstanding	Of which to Executive Committee members*
23 November 2009	144,000	54.91	21,000	-	123,000	95,000
TOTAL	**144,000**	-	**21,000**	**-**	**123,000**	**95,000**

** Including members of the Management Board.*

Free performance-based share allocation plan authorised by the General Meeting of 13 September 2010

Faiveley Transport's Combined General Meeting of 13 September 2010 delegated the Management Board powers for the allocation of free performance-based shares, either existing or to be issued, within the limit of 1% of the share capital at 13 September 2010.

At its meetings of 3 December 2010 and 24 February 2011, the Management Board allocated a total of 69,700 existing shares to 43 beneficiaries

At its meetings of 3 December 2012 and 24 February 2013, the Management Board validated the partial achievement of performance criteria, at the rate of 50%, as well as the final list of beneficiaries. The free shares vested must be retained for a minimum period of two years from their vesting date.

MAIN FEATURES OF THE CURRENT FREE PERFORMANCE-BASED SHARE ALLOCATION PLAN

Allocation date	Vesting date	Number of free shares granted	Free shares cancelled	Free shares vested based on achievement of performance criteria	Of which to Executive Committee members*
3 December 2010	3 December 2012	64,500	11,200	26,650	15,000
24 February 2011	24 February 2013	5,200	3,200	1,000	-

** Including members of the Management Board.*

Free share allocation plan authorised by the General Meeting of 14 September 2011

The Combined General Meeting of 14 September 2011 delegated to the Management Board its powers in relation to:

- setting the conditions and where appropriate, setting the allocation criteria for ordinary shares;
- within the legal conditions and limits, setting the dates on which the allocations will proceed;
- determining the identity of beneficiaries, the number of ordinary shares allocated to each of them and the means of allocation of ordinary shares.

This authorisation is valid for thirty-eight months (38) and may not exceed 1% of the share capital on 14 September 2011.

At its meeting of 5 March 2012, the Management Board used this authorisation and granted a total of 79,224 free shares to 151 beneficiaries.

MAIN FEATURES OF THE CURRENT FREE SHARE ALLOCATION PLAN

Allocation date	Number of free shares granted	Free shares cancelled	Free shares in issue	Of which to Executive Committee members*
5 March 2012	79,224	2,916	76,308	15,200

** Including members of the Management Board.*

Free share allocation plan authorised by the General Meeting of 14 September 2012

The Combined General Meeting of 14 September 2012 delegated authority to the Management Board to proceed with the allocation of free ordinary shares in the Company, either in existing shares or shares to be issued, within the limit of 1% of the share capital at 14 September 2012.

ALLOCATION OF FREE PERFORMANCE-BASED SHARES BY THE MANAGEMENT BOARD OF 24 OCTOBER 2012

At its meeting of 24 October 2012, the Management Board allocated 10,000 free shares in issue to one beneficiary. The allocation of these performance-based shares will be final at the end of a two year vesting period, subject to the beneficiary remaining employed by the Group and the partial or full achievement of performance conditions. This period will be followed by a minimum retention period of 2 years.

↗ MAIN FEATURES OF THE CURRENT FREE SHARE ALLOCATION PLAN

Allocation date	Number of free shares granted	Free shares cancelled	Free shares vested based on achievement of performance criteria	Of which to Executive Committee members
24 October 2012	10,000	-	10,000	10,000

IMPLEMENTATION OF A FREE SHARE ALLOCATION PLAN AS PART OF AN EMPLOYEE SHAREHOLDING PLAN BY THE MANAGEMENT BOARD OF 3 DECEMBER 2012

At its meeting held on 3 December 2012, the Management Board decided to implement this delegation and to allocate free shares. This decision was made as part of an employee shareholding plan aimed at a broader population of executives. The programme provides that an employee holding shares in the Company in a personal capacity will be granted two free shares for every share held, not exceeding a limit set for each level of management.

At its meeting held on 15 January 2013, the Management Board established the final list of beneficiaries and the number of free shares to be granted. A total of 72,386 shares are thus to be granted to 179 beneficiaries. The allocation of the shares will be final at the end of a two-year vesting period, or four years for non-French residents, beginning on 15 January 2013.

↗ MAIN FEATURES OF THE CURRENT FREE SHARE ALLOCATION PLAN

Allocation date	Number of free shares granted	Free shares cancelled	Free shares in issue	Of which to Executive Committee members*
15 January 2013	72,386	-	72,386	11,440

** Including members of the Management Board.*

5.2 SHARE PREMIUM

The share premium represents the difference between the nominal value of securities and the amount, net of costs, received in cash or kind at the time of the issue.

6. Regulated provisions and provisions for liabilities and charges

	1 April 2012	Charges	Used reversals	Unused reversals	31 March 2013
Accelerated depreciation	-	-	-	-	-
REGULATED PROVISIONS	**-**	**-**	**-**	**-**	**-**
Provisions for liabilities	99	237	(69)	-	267
Provisions for taxes	-	-	-	-	-
Provisions for litigation	262	322	(35)	(25)	524
Provisions for option plans*	1,516	1,386	(1,306)	-	1,596
Provisions for employee compensation	7	2	-	-	9
PROVISIONS FOR LIABILITIES AND CHARGES	**1,884**	**1,947**	**(1,410)**	**(25)**	**2,396**

** The €1,596 thousand provision for option plans includes €2 thousand relating to the option plan of 27 September 2005, €171 thousand for the subscription option plan of 22 September 2009, €1,103 thousand for the free share allocation plan of 14 September 2011, €72 thousand for the free performance-based share allocation plan of 24 October 2012 and €248 thousand for the share allocation plan of 3 December 2012.*

7. Loans and borrowings

	Less than 1 year	More than 1 year	31 March 2013	31 March 2012
Bond-type borrowings	1,351	56,927	58,278	-
Loans and borrowings from credit institutions	359,831	257,333	617,164	707,551
Employee profit-sharing	-	65	65	65
Other financial liabilities*	10,156	-	10,156	20,312
Current trade payables	563,459	-	563,459	510,347
TOTAL	**934,797**	**314,325**	**1,249,122**	**1,238,275**

** Other borrowings, at 31 March 2013, correspond to the loan of €10.2 million contracted with its subsidiary Faiveley Transport Malmö.*

During the financial year, loans and borrowings from credit institutions decreased by €90.4 million. This decrease resulted from the annual syndicated facility instalment of €34.1 million, the remainder comprising lower drawdowns on other credit facilities and bank overdrafts.

For all its sources of financing, the Faiveley Transport Group must comply with the following four financial conditions:

- leverage ratio (Consolidated Net Debt/Consolidated EBITDA): must not exceed 2.5. At 31 March 2013, the ratio was 1.47;
- gearing ratio (Consolidated Net Debt/Consolidated Equity): must not exceed 1.50. At 31 March 2013, the ratio was 0.31;
- total bank guarantees must not exceed 22% of the order book. At 31 March 2013, this was 13.5%;
- "Consolidated EBITDA/Cost of Consolidated Net Financial Debt" must not be less than 3.5. At 31 March 2013, the ratio was 11.6.

Other financial liabilities decreased by €10.2 million. This decline was due to the repayment of the Euro-denominated loan granted by the Faiveley Transport Malmö subsidiary.

Current trade payable balances increased by €53.1 million at 31 March 2013.

8. Other liabilities

	Less than 1 year	More than 1 year	31 March 2013	31 March 2012
Trade payables	17,526	-	17,526	14,987
Tax and social security liabilities*	11,077	-	11,077	7,321
Tax consolidation	2,566	-	2,566	2,124
Other	1,174	-	1,174	718
TOTAL	**32,343**	**-**	**32,343**	**25,150**

** The tax liability relating to the company Faiveley Transport Holding GmbH & Co. KG and Faiveley Transport Leipzig GmbH & Co. KG was recorded under tax and social security liabilities for €1,457 thousand. At 31 March 2012, this liability was €296 thousand.*

9. Deferred expenses

Nil.

10. Accrued expenses and accrued income

10.1 ACCRUED EXPENSES

Accrued expenses included in the following balance sheet captions	2012/2013	2011/2012
Loans and borrowings	1,456	193
Trade payables	5,950	2,622
Tax and social security liabilities	4,952	4,620
Liabilities for non-current assets	-	-
Other	697	316
TOTAL	**13,055**	**7,751**

10.2 ACCRUED INCOME

Accrued income included in the following balance sheet captions	2012/2013	2011/2012
Receivables from associates	726	2,113
Trade receivables	27,791	28,216
Other receivables*	27,323	-
Suppliers receivables	-	150
Tax and social security receivables	-	12
Cash and cash equivalents	-	-
TOTAL	**55,840**	**30,491**

* *Of which €12,322 thousand in respect of the WABTEC compensation and €15,001 thousand in dividends.*

11. Prepaid expenses and deferred income

	2012/2013	2011/2012
Operating expenses	542	561
Financial expenses	-	-
Exceptional expenses	-	-
PREPAID EXPENSES	**542**	**561**
Operating income	-	-
Financial income	-	-
Exceptional income	-	-
DEFERRED INCOME	**-**	**-**

12. Analysis of sales by segment and geographic area

Segment	2012/2013	2011/2012
Provision of services	56,742	52,677
Rental/hire	5	385
TOTAL	**56,747**	**53,062**

Geographic area	2012/2013	2011/2012
France	17,002	16,626
EU	27,584	31,921
Non EU	12,161	4,134
TOTAL	**56,747**	**52,681**

13. Research and development

None in Faiveley Transport's parent company financial statements.

14. Personnel costs

	2012/2013	2011/2012
Salaries*	12,258	11,695
Social security charges	4,175	3,983
TOTAL	**16,433**	**15,678**

* *Including a €1,387 thousand provision at 31 March 2013 for the future costs of share subscription and free share plans and the €409 thousand impact of the 2010 plan served.*

15. Financial income/(expenses)

	2012/2013	2011/2012
Cash dividends received	37,451	1,339
Income from marketable securities	17	26
Interest on current accounts, loans, borrowings and overdrafts	(9,122)	(11,259)
Realised foreign exchange gains and losses	671	67
Charges and reversals on financial investments	156	(599)
Other financial income and charges	672	434
Financial receivable written off (o.o.o Transport subsidiary)	(2,563)	-
TOTAL	**27,282**	**(9,992)**

The strong increase in dividends received results from the implementation of a more active policy relating to the transfer of the dividends of subsidiaries from the 2012/2013 financial year.

16. Exceptional income and expense

	2012/2013	2011/2012
Income/(expense) on disposals of financial investments	(46)	-
Other*	-	(243)
TOTAL	**(46)**	**(243)**

** The 2011/2012 exceptional expense was an adjustment to the 2008/2009 business tax.*

17. Income tax

17.1 ANALYSIS OF INCOME TAX BETWEEN THE CURRENT TAX CHARGE, EXCEPTIONAL INCOME AND ACCOUNTING PROFIT

	Before tax	Tax	After tax
Profit from ordinary activities	31,342	-	31,342
Exceptional income	(46)	-	(46)
Effect of tax consolidation	-	(4,534)	(4,534)
ACCOUNTING PROFIT/(LOSS)	**31,296**	**(4,534)**	**26,762**

17.2 TAX CONSOLIDATION

Faiveley Transport heads a tax consolidation that comprises Faiveley Transport Tours, Faiveley Transport Amiens, Faiveley Transport Gennevilliers and Faiveley Transport NSF.

Tax savings achieved as part of this tax consolidation are recognised and retained by the parent company. For the year ended 31 March 2013, the tax consolidation generated a tax saving of €0.6 million, which was added to the €3.9 million tax charge of the German subsidiaries (corporate tax).

Without the tax consolidation, the taxable profit of Faiveley Transport alone would have been €0.1 million.

At 31 March 2013, tax losses carried forward were €1.2 million. Since these losses originated prior to the merger between Faiveley SA and Faiveley Transport, they may only be offset against Faiveley Transport's future profits.

17.3 EXCEPTIONAL TAX ASSESSMENTS

Nil.

17.4 DEFERRED AND UNREALISED TAX POSITION

Description	Amount
Taxes payable on:	
Regulated provisions:	-
Provisions for price increases	-
TOTAL INCREASE	**-**
Prepaid tax on non-deductible temporary differences (deductible in subsequent year):	
• Provision for Directors' fees	360
• Paid holidays	959
• Liability translation adjustment	2,788
• Organic contribution	29
TOTAL DECREASE	**4,136**
NET DEFERRED TAX POSITION	**4,136**

18. Translation differences

Positive and negative translation differences arise on the translation of trade receivables and payables and on borrowings, loans and foreign currency-denominated bank accounts at balance sheet date exchange rates.

Type of translation difference	Unrealised losses (asset)	Provision for exchange of loss	Unrealised gains (liabilities)
Subsidiary loans	-	-	2,542
Subsidiary borrowings	-	-	-
Bank borrowings	-	-	-
Foreign currency-denominated bank accounts	12	12	124
Foreign currency-denominated trade receivables	190	190	110
Foreign currency-denominated trade payables	35	35	13
TOTAL	**237**	**237**	**2,789**

D. OTHER INFORMATION

1. Post-balance sheet events

On 17 May 2013, Faiveley Transport acquired 100% of Schwab Verkehrstechnik AG, a leading designer and manufacturer of couplers and buffers for freight and rail transit markets, which reported sales of CHF 23 million in 2012. This company is based in Schaffhausen (Switzerland) and has 42 employees.

2. Information on non-tax deductible expenses

Non-tax deductible expenses were €16,341 at 31 March 2013.

3. Average workforce

The average workforce includes employees allocated to international offices.

	2012/2013	2011/2012
Managers	77	65
Supervisors	2	2
Employees	10	11
TOTAL	**89**	**78**

4. Directors' remuneration

During the 2012/2013 financial year, members of the Group's management bodies received a total of €1,451,668 in direct and indirect remuneration of any nature.

5. Identity of parent company

Faiveley Transport fully consolidates the subsidiaries in which it directly or indirectly holds over 50% of the share capital. Companies in which Faiveley Transport exercises joint control, whether directly or indirectly, are proportionally consolidated.

6. Transactions with related companies and parties

WITH RELATED COMPANIES

Share of financial investments, receivables, payables, income and expenses concerning related parties:

Related companies	2012/2013	2011/2012
Equity investments	501,427	499,919
Receivables from associates	161,195	156,705
Trade receivables	49,540	47,114
Other receivables	16,288	75
Loans and other borrowings	573,615	530,659
Trade and other payables	12,077	12,057
Other liabilities	2,566	2,124
Provision of services	56,938	52,965
Operating expenses	25,550	23,535
Financial expenses	5,307	4,938
Financial income	42,227	5,967

WITH RELATED PARTIES

Apart from the transactions carried out with related parties and not referred to by the law, no significant transactions were concluded at arm's length.

Agreements with related parties are set out in a note to the consolidated financial statements (Note E.27 – Transactions with related parties).

7. Off-balance sheet commitments

7.1 COMMITMENTS GIVEN

	2012/2013	2011/2012
Deposits, securities and guarantees given to financial institutions	25,252	38,622
Retirement benefits*	615	500
Parent company guarantees	409,970	403,046

* *Retirement assumptions:*
- *the discount rates are determined by reference to the yields on AAA bonds for the equivalent periods to the commitments at the date of valuation;*
- *the assumptions adopted to calculate the retirement commitments are disclosed in the table below:*

	2012/2013	2011/2012
Discount rate	*2.85%*	*3.85%*
Inflation rate	*2%*	*2%*
Average rate of salary increase	*2.5%*	*3%*
Yield expected on investments	*N/A*	*N/A*

7.2 LONG TERM LEASE COMMITMENTS

Types of leases	Facilities	IT hardware	Motor rental	Total
Lease payments for the financial year	663	414	146	1,223
TOTAL	**663**	**414**	**146**	**1,223**
Lease payments due:				
• 1 year or less	580	554	100	1,234
• 1 to 5 years	2,393	514	75	2,982
• more than 5 years	2,020	-	-	2,020
TOTAL	**4,993**	**1,068**	**175**	**6,236**

7.3 HEDGING COMMITMENTS

Interest rate risk

The syndicated debt, excluding the revolving facility, is indexed on US Dollar Euribor and Libor variable rates and may be hedged in accordance with the Group's interest rate risk policy. None of the revolving facilities, whether drawn or undrawn, nor the US private placement-type fixed-rate bond issue are subject to interest rate hedging.

To manage its risk, the Treasury Department has implemented a hedging strategy using interest rate swaps, tunnels, caps and options.

The exposure of interest rates on loans in Euros is hedged for between 77% and 83% of the total debt bearing a Euro interest rate, depending on interest rate fluctuations for the 2013/2014 period.

The syndicated debt denominated in US dollars is no longer being hedged. However, taking into account the "US private placement" bond issue, the hedged ratio, *i.e.*: amount of fixed-rate debt over total USD-denominated debt, is 74% for the period 2013/2014.

The estimated cost of syndicated debt in 2013/2014 is 1.94%, including hedges and spreads for the debt in Euros, and 3.87% for the debt in US dollars, which includes the US private placement. The Group's total cost of debt for 2013/2014 is therefore estimated at 2.5%.

INSTRUMENTS RECOGNISED UNDER EQUITY

	EUR borrowings		USD borrowings			
	Nominal value (EUR thousands)	Fair value (EUR thousands)	Nominal value (USD thousands)	Fair value (USD thousands)	Nominal value (EUR thousands)	Fair value (EUR thousands)
Swaps	160,000	(3,095)	225	(2)	176	(2)
Tunnels	12,500	(212)	-	-	-	-
Caps	20,000	(56)	-	-	-	-
TOTAL	**192,500**	**(3,363)**	**225**	**(2)**	**176**	**(2)**

Exchange risks

The Group operates in foreign countries and is therefore exposed to exchange risk as a result of various foreign currency exposures.

The principal currencies concerned are the US Dollar, the Hong Kong Dollar, the Czech Koruna and the Swedish Krona, the Pound Sterling and the Chinese Yuan.

The management of the exchange risk of commercial contracts is centralised by the Group Treasury Department and comprises two parts: the certain and the uncertain risk.

EXCHANGE RISK MANAGEMENT RELATING TO TENDERS IN FOREIGN CURRENCIES (UNCERTAIN RISK):

The Faiveley Transport Group is required to submit tenders denominated in foreign currencies. The Group's hedging policy is not to use hedge instruments during the offer phase, unless when specifically decided by Management. The aim is to manage the exchange risk through normal commercially available means. If necessary, the Group Treasury Department uses mainly exchange options.

EXCHANGE RISK MANAGEMENT RELATING TO COMMERCIAL CONTRACTS (CERTAIN RISK)

Commercial contracts in foreign currencies (most often successful tenders) are hedged by the Group Treasury Department from contractual commitment. Instruments used mainly include forward purchases and sales and exchange swaps. Group Treasury may also use options.

The Group's policy is to systematically hedge the full value of future transactions expected in every major currency. The minimum trigger threshold for a foreign exchange hedge is €250 thousand.

Various cash flows are hedged against for a minimum of 80% of the annual budget.

In addition to commercial contracts, all financial positions and management fees deemed significant are hedged against.

FORWARD SALES USED TO HEDGE FINANCIAL AND BUSINESS TRANSACTIONS AT 31 MARCH 2013

	Nominal value		Fair value
	(EUR thousands)	(thousands of foreign currency)	(EUR thousands)
Australian Dollar	4,691	6,048	(198)
Chinese Yuan	18,350	149,180	(259)
Czech Koruna	13,659	349,964	63
Pound Sterling	15,890	13,597	(152)
Hong Kong Dollar	44,150	452,320	(1,309)
Indian Rupee	905	64,825	1
Polish Zloty	816	3,400	7
Russian Rouble	5,274	209,713	-
Swedish Krona	16,875	142,980	(206)
Singapore Dollar	16,240	25,822	-
US Dollar	155,875	204,254	(3,489)
TOTAL	**292,725**		**(5,542)**

FORWARD PURCHASES USED TO HEDGE FINANCIAL AND BUSINESS TRANSACTIONS AT 31 MARCH 2013

	Nominal value		Fair value
	(EUR thousands)	(thousands of foreign currency)	(EUR thousands)
Australian Dollar	4,891	6,250	159
Swiss Franc	244	300	2
Chinese Yuan	43,682	355,645	400
Czech Koruna	49,222	1,256,119	(879)
Pound Sterling	29,300	24,319	(586)
Hong Kong Dollar	50,083	505,061	700
Indian Rupee	2,086	151,849	58
Polish Zloty	1,837	7,684	(9)
Swedish Krona	54,307	459,662	603
US Dollar	115,918	152,089	2,335
TOTAL	**351,570**		**2,783**

Derivative instruments

The fair value of derivative instruments used to hedge against foreign exchange, interest rate and raw material risks was recognised in the balance sheet as follows:

At 31 March 2013	Financial instruments Assets	Financial instruments Liabilities	Unrealised capital gains/(losses) taken to equity
Interest rate hedges[(1)]	-	3,321	(3,261)
Raw material hedges[(1)]	-	11	(11)
Foreign exchange hedges	5,246	8,030	(35)
• *fair value hedges*	*2,950*	*4,042*	-
• *cash flow hedges*	*38*	*75*	*(35)*
• *not eligible for hedge accounting*	*2,258*	*3,913*	-
TOTAL	**5,246**	**11,362**	**(3,307)**

(1) Cash flow hedges.

At 31 March 2012	Financial instruments Assets	Financial instruments Liabilities	Unrealised capital gains/(losses) taken to equity
Interest rate hedges	-	3,623	(3,557)
Raw material hedges	-	4	(4)
Foreign exchange hedges	5,003	4,018	116
• *fair value hedges*	*3,270*	*3,006*	-
• *cash flow hedges*	*184*	*78*	*116*
• *not eligible for hedge accounting*	*1,549*	*934*	-
TOTAL	**5,003**	**7,645**	**(3,445)**

7.4 COMMITMENTS RECEIVED

Nil.

7.5 INDIVIDUAL TRAINING RIGHTS (ITR)

The employees of Faiveley Transport are entitled to request additional training. A total of 66 hours of training in respect of the ITR was requested by employees during the financial year. At 31 March 2013, a total of 3,879 unused training hours had been accumulated.

7.6 SHARE PURCHASE OPTION PLAN OF 27 SEPTEMBER 2005

On request from Faiveley Transport, Faiveley SA implemented a share purchase option plan for the benefit of key Faiveley Transport Group Management (excluding the managers who invested in Faiveley Management SAS).

This share purchase option plan, for a maximum of 325,000 Faiveley Transport shares, was approved by the General Meeting on 27 September 2005 and was implemented by the Management Board. The table in Note C.5.1 “Share capital”, details the share allocations. At 31 March 2013, 56,996 shares were outstanding.

The options are exercisable as of the second anniversary date of their allocation by the Chairman of the Management Board, provided the beneficiary is still employed by the Faiveley Transport Group on the day of exercise and has accepted the options terms and conditions. The shares are not transferable until the fourth anniversary of the allocation of purchase options. It should be noted that 259,044 share purchase options have been exercised at 31 March 2013.

7.7 SHARE SUBSCRIPTION PLAN OF 22 SEPTEMBER 2009

The Combined General Meeting of 22 September 2009 delegated to the Management Board powers in relation to:

- granting share subscription and/or purchase options;
- issuing shares or marketable securities giving right to the allocation of new or already issued shares of the Company, with, in the case of the allocation of new shares, the waiver of the pre-emption right.

At its meeting of 23 November 2009, the Management Board decided to grant, on this date and up to 23 November 2017, options giving right to subscribe to new shares in the Company, to be issued through a share capital increase not exceeding an overall nominal amount of €144,000, corresponding to 144,000 new shares at a par value of €1 each. The new shares will be issued at a price of €54.91. The number of options was reduced to 123,000 at 31 March 2013.

7.8 FREE PERFORMANCE-BASED SHARE ALLOCATION PLAN AUTHORISED BY THE GENERAL MEETING OF 13 SEPTEMBER 2010

The Combined General Meeting of 13 September 2010 delegated the Management Board powers to allocate free shares of the Company, either new or already issued. The General Meeting established a minimum vesting period of two years following which the allocation of ordinary shares to beneficiaries will be final, subject to the potential terms and conditions set out by the Management Board, and a retention period of a minimum of two years from the date of final allocation of the shares.

In its meetings held on 3 December 2010 and 24 February 2011, the Management Board decided to allocate a total of 69,700 shares to 43 beneficiaries.

The Management Board has assigned permanently at its meetings of 3 December 2012 and 24 February 2013 respectively 26,650 and 1,000 shares to beneficiaries after taking into account the partial achievement of performance criteria.

7.9 FREE SHARE ALLOCATION PLAN AUTHORISED BY THE GENERAL MEETING OF 14 SEPTEMBER2011

The Combined General Meeting of 14 September 2011 delegated the Management Board powers to allocate free shares of the Company, either new or already issued. The General Meeting established a minimum vesting period of two years following which the allocation of ordinary shares to beneficiaries will be final, subject to the potential terms and conditions set out by the Management Board, and a retention period of a minimum of two years from the date of final allocation of the shares. However, the General Meeting authorised the Management Board, to the extent that the minimum vesting period for some or all of the allocations would be a minimum of four years, not to impose a retention period for the shares in question.

In its meeting held on 5 March 2012, the Management Board decided to implement this authorisation and allocate a total of 79,224 shares to 151 beneficiaries. At 31 March 2013, 2,916 free shares were cancelled. A balance of 76,308 shares was allocated.

7.10 FREE SHARE ALLOCATION PLAN AUTHORISED BY THE GENERAL MEETING OF 14 SEPTEMBER 2012

At 31 March 2013, the balance of the free performance-based share plan was 10,000 shares, with that of the free allocation plan as part of an employee shareholding plan standing at 72,386 shares.

8. Statutory Auditors' fees

Statutory Auditors' fees are included in Note H of the 2012/2013 consolidated financial statements.

9. List of subsidiaries and equity investments (€ thousands)

Subsidiary	Share Capital	Equity (other than share capital)	% of share capital held	Value of shares held	Net value of shares held	Loans and advances	Guarantees and commitments issued	Sales excluding tax	Dividends received
Faiveley Transport Amiens	8,100	63,747	100	20,000	20,000	-	9,956	90,556	4,050
Faiveley Transport NSF	983	13,634	100	12,758	12,758	-	1,283	32,520	2,001
Faiveley Transport Tours	39,965	65,458	100	39,422	39,422	-	14,920	159,975	5,995
Faiveley Transport Gennevilliers	5,000	304	100	5,000	5,000	13,654	-	12,425	-
Sofaport	96	(72)	60	36	36	-	-	-	-
Faiveley Transport Acquisition AB	114	36,381	100	156,409	156,409	37,924	-	-	15,001
Faiveley Transport Pilzen	8	532	100	6	6	-	-	2,675	-
Faiveley Transport USA Inc.	1	32,811	100	36,706	36,706	42,111	9,948	-	-
Qingdao Faiveley SRI Rail Brake Co. Ltd.(1)	3,769	16,902	50	1,486	1,486	-	10,139	36,140	-
Datong Faiveley Couplers Systems Co. Ltd. (1)	628	326	50	237	237	-	-	2,594	-
Faiveley Transport Asia Pacific Co. Ltd.	-	(10)	100	-	-	916	-	-	-
Faiveley Transport Leipzig GmbH & Co. KG	16,000	21,981	100	23,111	23,111	-	107,344	129,391	3,000
Nowe GmbH	125	1,508	75	2,007	2,007	583	401	4,362	-
Faiveley Transport Holding GmbH & Co. KG	10	160,831	100	90,010	90,010	-	-	-	5,000
Shijiazhuang Jiaxiang Precision Machinery Co. Ltd.(1)	4,523	5,020	50	1,892	1,892	-	-	17,379	1,871
Faiveley Transport Ibérica SA	871	30,284	100	1,390	1,390	12,368	4,991	64,264	-
Faiveley Transport Do Brasil Ltda.	8,106	10,140	100	4,258	4,258	-	1,945	21,703	-
Faiveley Transport Italia Spa.	1,424	79,406	98.70	37,827	37,827	23,408	29,149	117,208	-
Faiveley Transport Tamworth Ltd.	59	7,545	100	66	66	-	-	9,225	-
Faiveley Transport Far East Ltd.	-	(7,968)	100	-	-	20,004	8,417	25,016	-
Faiveley Transport Lekov a.s.	2,075	4,339	100	5,884	5,884	2,890	1,366	20,949	-
FMRP	910	(360)	48	486	486	-	-	907	-
Faiveley Transport Canada Ltd.	-	(210)	100	-	-	2,425	52,893	1,558	-
Faiveley Transport Schweiz AG	82	2,454	80	2,926	2,926	-	-	7,701	533
Faiveley Transport Systems Technology (Beijing) Co. Ltd.(1)	3,990	(2,303)	100	3,500	3,500	-	5,221	6,193	-
Faiveley Transport Belgium NV	56,248	3,617	99.56	56,000	56,000	-	-	4,971	-
Faiveley Transport Maroc	8	(57)	100	8	8	29	-	65	-
Faiveley Transport South Africa (2)	-	-	100	-	-	-	-	-	-

(1) Data reported at the local 31 December 2012 year-end for the four Chinese subsidiaries.
(2) Accounts not closed.

4.5 FAIVELEY TRANSPORT FIVE-YEAR FINANCIAL SUMMARY

		2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
I.	**Share capital at year-end**					
a.	Share capital	14,404,711	14,404,711	14,404,711	14,614,152	14,614,152
b.	Number of ordinary shares in issue	14,404,711	14,404,711	14,404,711	14,614,152	14,614,152
c.	Share per value	1	1	1	1	1
d.	Number of preference dividend shares (without voting rights) in issue	-	-	-	-	-
e.	Maximum number of shares to be issued					
	1. by conversion of bonds	-	-	-	-	-
	2. by exercise of subscription rights	-	-	-	-	-
	3. by exercise of equity warrants	-	-	-	-	-
II.	**Operations and results for the financial year**					
a.	Sales (ex VAT)	1,401,867	48,564,676	48,860,272	52,681,294	56,757,369
b.	Profit before tax, amortisation, depreciation and provision charges and profit-sharing	71,223,334	36,482,013	(3,091,896)	(10,825,972)	32,222,843
c.	Income tax	(5,209,593)	(4,630,407)	(741,771)	(834,864)	4,534,414
d.	Employee profit-sharing for the period	-	-	-	-	
e.	Profit after tax, amortisation, depreciation and provision charges and profit-sharing	76,886,871	41,307,869	(1,757,424)	(10,998,977)	26,762,496
f.	Cash dividends paid	14,404,711	17,285,653	17,285,653	12,422,029	13,883,444
III.	**Earnings per share**					
a.	Earnings per share after tax, but before amortisation, depreciation and provision charges	5.31	2.85	(0.16)	(0.68)	1.89
b.	Earnings per share after tax and amortisation, depreciation and provision charges	5.34	2.87	(0.12)	(0.75)	1.83
c.	Cash dividend per share	1.00	1.20	1.20	0.85	0.95
IV.	**Workforce**					
a.	Average workforce for the period	3	66	89	78	89
b.	Total payroll for the period	199,443	9,447,515	11,169,044	11,694,975	12,258,214
c.	Total sums paid as employee benefits over the period (social security contributions, charities, etc.)	51,164	3,049,558	4,108,527	3,982,742	4,174,993

5. STATUTORY AUDITORS' **REPORT**

on the parent company financial statements
For the year ended 31 March 2013

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below in the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by the Annual General Meeting, we hereby report to you, for the year ended 31 March 2013, on:

- the audit of the accompanying financial statements of FAIVELEY TRANSPORT;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

I. OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance regarding whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence regarding the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the financial statements provide a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 March 2013 and the results of its operation for the year then ended in accordance with French accounting principles.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

The Notes B.3.1 and B.3.3 to the financial statements present accounting rules and methods used by your Company in order to value and depreciate the technical loss as well as equity securities. We have assessed the relevance of these methods. We also assessed approaches and assumptions used by the Company, as described in the financial statements, in order to estimate book values on the basis of the latest available information. We conducted tests of implementation to assess the application of these methods.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed, which is expressed in the first part of this report.

III. SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Management Board and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your company or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

In accordance with the French law, we have verified that the required information concerning the identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine and Dijon, 12 July 2013

The Statutory Auditors

PricewaterhouseCoopers Audit
Philippe Vincent

Expertise Comptable et Audit
Jérôme Burrier

6. STATUTORY AUDITORS' SPECIAL REPORT

on related-party agreements and commitments
Annual General Meeting to approve the financial statements for the year ended 31 March 2013

This is a free translation into English of the Statutory Auditors' special report on related-party agreements and commitments issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report to you on related-party agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of Article R.225-58 of the French Commercial Code, it is the responsibility of shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is also our responsibility to provide shareholders with the information required by Article R.225-58 of the French Commercial Code in relation to the implementation during the year of agreements and commitments already approved by the Annual General Meeting.

We performed the procedures that we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie nationale des commissaires aux comptes) applicable to such engagements. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

I. AGREEMENTS AND COMMITMENTS SUBMITTED FOR THE APPROVAL OF THE ANNUAL GENERAL MEETING

Agreements and commitments authorised during the year

In accordance with Article L. 225-86 of the French Commercial Code, we were informed of the following agreements and commitments authorised by the Supervisory Board.

WITH FRANCOIS FAIVELEY PARTICIPATIONS SAS

(Erwan FAIVELEY, member of the Management Board, holds the position of Chairman of the Management Board of FFP, which is shareholder of FAIVELEY TRANSPORT)

(Supervisory Board Meeting of 6 June 2012)

Your Company concluded an amendment number 3 to the agreement for technical, commercial and administrative support agreed between the Company FFP and FAIVELEY TRANSPORT of 26 June 2004.

By this amendment number 3, the Company FFP and FAIVELEY TRANSPORT have decided to update fee conditions of services provided which fixed amount of €365,000 exclusive of tax was already set by an amendment number 2 of 30 June 2008.

The annual fee is now revised upwards every year according to the movement of the SYNTEC index. The first revision was on 1 June 2012. The annual increase cannot exceed 5% of the previous annual fee.

In application of this amendment number 3, the annual fee remuneration for the services provided was set at € 373,094 exclusive of tax for the year ended 31 March 2013.

II. AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE ANNUAL GENERAL MEETING

Agreements and commitments approved in previous years which remained in force during the year

In accordance with Article R.225-57 of the French Commercial Code, we were informed that the following agreements and commitments, approved by your Annual General Meeting in previous years, remained in force during the year ended 31 March 2013.

WITH ROBERT JOYEUX

Memorandum of understanding with the managers and amendment n°1 – Sale and transfer of FAIVELEY MANAGEMENT shares to FAIVELEY SA (which became FAIVELEY TRANSPORT on 22 September 2009)

As part of its capital restructuring operations, FAIVELEY TRANSPORT signed a memorandum of understanding on 16 October 2008 and an amendment to this memorandum of understanding on 17 November 2008 with the managers and their spouses who are shareholders of FAIVELEY MANAGEMENT SAS.

Within the framework of the memorandum of understanding of 16 October 2008, Robert JOYEUX received 140,610 FAIVELEY TRANSPORT shares in exchange for 164,430 FAIVELEY MANAGEMENT shares provided to FAIVELEY TRANSPORT. For a period of six years with effect from 23 December 2008, any disposal of any block of 10,000 shares in FAIVELEY TRANSPORT is subject to a pre-emption right of FAIVELEY TRANSPORT.

Consulting and assistance agreement of 22 April 2011 and amendment number 1 of 28 March 2012

In application of the amendment number 1 of 28 March 2012 added to the consulting and assistance agreement agreed between the Company RJX Consulting, whose Manager is Robert JOYEUX, and FAIVELEY TRANSPORT, your Company paid €194,000 exclusive of tax for consulting and assistance fees and €12,000 exclusive of tax for reimbursement of expenses.

WITH THIERRY BAREL

Thierry BAREL, Chairman of the Management Board, may be entitled to compensation based on performance criteria, not exceeding eighteen months of total gross remuneration, in the event of his dismissal by the Supervisory Board.

The performance criterion for the measurement of this compensation is the rate of achievement of annual goals set by the Supervisory Board. These annual goals are used for the calculation of the annual variable remuneration. The measurement of this performance criterion is the average of the performance accomplished by Thierry BAREL during the three years for which results have been published and preceding his dismissal by the Supervisory Board.

WITH FRANCOIS FAIVELEY PARTICIPATION SAS

In application of the technical, commercial and administrative assistance agreement concluded between FFP and FAIVELEY TRANSPORT on 26 June 2004, the Company FAIVELEY TRANSPORT invoiced €3,170 exclusive of tax for rents and services provided to the Company FFP for the year ended 31 March 2013.

Neuilly-sur-Seine and Dijon, 12 July 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Expertise Comptable et Audit
Philippe Vincent	Jérôme Burrier

7. DRAFT RESOLUTIONS

to be submitted to the Combined General Meeting of 12 September 2013 called to approve the financial statements for the year ended 31 March 2013

I. RESOLUTIONS IN ORDINARY SESSION

FIRST RESOLUTION

Approval of the parent company financial statements for the year ended 31 March 2013

The General Meeting, acting under the quorum and majority conditions required for Ordinary General Meetings, having considered the management report of the Management Board and the observations of the Supervisory Board on the operations of the Company for the financial year ended 31 March 2013 and on the financial statements of that year, and having considered the Statutory Auditors' report on the execution of their assignment for this financial year, approves the parent company financial statements for the year ended 31 March 2013, as presented, showing a profit of €26,762,496.06, and the transactions recorded in these financial statements and summarised in these reports.

Pursuant to Article 223 (iv) of the General Tax Code, the General Meeting approves the non-tax-deductible expenses covered by Article 39-4 of the said Code totalling €16,431, as well as the corresponding tax which amounts to €5,918.

SECOND RESOLUTION

Allocation of profit for the year ended 31 March 2013

The General Meeting, acting under the quorum and majority conditions required for Ordinary General Meetings, on the proposal of the Management Board, agrees to allocate the profit for the year ended 31 March 2013 as follows:

- Profit for the financial year €26,762,496.06
- Added to:
  - Retained earnings from previous years €44,715,256.31
- Distributable profit: €71,477,752.37
  - Transfer to legal reserve: €0
  - Cash dividend of €0.95 per share: (€13,883,444.40)

The balance of €57,594,307.97 will be transferred in full to "retained earnings".

Taking account of this allocation, the Company shareholders' equity will be €178,624,285.99.

The dividend will be payable from 19 September 2013.

Pursuant to Article 158 of the General Tax Code, only individual shareholders will be entitled under the dividends distributed to a rebate of 40% on the amount received.

Pursuant to the provisions of Article 243(ii) of the General Tax Code, the General Meeting notes that the following dividends were paid in respect of the last three financial years:

Year	Dividend
2009/2010	€1.20
2010/2011	€1.20
2011/2012	€0.85

Where, upon payment of these dividends, the Company holds any treasury shares, the distributable profit corresponding to the unpaid dividend due to the holding of the said shares will be allocated to "retained earnings".

THIRD RESOLUTION

Approval of the consolidated financial statements for the year ended 31 March 2013

The General Meeting, acting under the quorum and majority conditions required for Ordinary General Meetings, having considered the management report of the Management Board and the observations of the Supervisory Board on the operations of the Group for the financial year ended 31 March 2013 and on the consolidated financial statements of that year, and having considered the report on the consolidated financial statements of the Statutory Auditors in the execution of their assignment during this financial year, approves the consolidated financial statements for the year ended 31 March 2013, as presented, as well as the transactions recorded in these financial statements and summarised in these reports.

FOURTH RESOLUTION

Setting of Directors' fees

The General Meeting, acting under the quorum and majority conditions required for Ordinary General Meetings, sets the amount of fees allocated to the Supervisory Board for the financial year ended 31 March 2013 at €325,000.

FIFTH RESOLUTION

Approval of the transactions and agreements referred to under Articles L. 225-86 and subsequent of the Commercial Code

The General Meeting, acting under the quorum and majority conditions required for Ordinary General Meetings, having considered the Statutory Auditors' special report on the agreements referred to under Articles L. 225-86 and subsequent of the Commercial Code, notes and approves the terms of this report and the agreements mentioned therein.

SIXTH RESOLUTION

Renewal of the term of office of a member of the Supervisory Board

The General Meeting, acting under the quorum and majority conditions required for Ordinary General Meetings, decides to renew the term of office of Christian Germa as member of the Supervisory Board for a period of three years, which will expire at the end of the General Meeting called to approve the financial statements for the year ending 31 March 2016.

SEVENTH RESOLUTION

Renewal of the term of office of a member of the Supervisory Board

The General Meeting, acting under the quorum and majority conditions required for Ordinary General Meetings, decides to renew the term of office of Maurice Marchand-Tonel as member of the Supervisory Board for a period of three years, which will expire at the end of the General Meeting called to approve the financial statements for the year ending 31 March 2016.

EIGHTH RESOLUTION

Renewal of the term of office of a member of the Supervisory Board representing employee shareholders

The General Meeting, acting under the quorum and majority conditions required for Ordinary General Meetings, having considered the report of the Management Board, decides to renew the term of office of Serge Choumaker as member of the Supervisory Board representing employee shareholders for a period of three years, which will expire at the end of the Annual General Meeting called to approve the financial statements for the year ending 31 March 2016.

NINTH RESOLUTION

Vacant position on the Supervisory Board

The General Meeting, acting under the quorum and majority conditions required for Ordinary General Meetings, decides not to fill the vacant position on the Supervisory Board arising from Robert Joyeux's term of office expiring at the end of this General Meeting.

TENTH RESOLUTION

Authorisation given to the Management Board to trade in Company shares

The General Meeting, acting under the quorum and majority conditions required for Ordinary General Meetings, having considered the report of the Management Board, authorises the Management Board, with the option to sub-delegate to its Chairman and/or one of its members, with the approval of the Chairman and within legal limits, in accordance with Articles L. 225-209 and subsequent of the Commercial Code, to purchase or sell shares in the Company.

The General Meeting decides that transactions may be carried out to:

- ensure the liquidity and to stimulate the market of Faiveley Transport shares by an investment services provider *via* a liquidity contract that complies with an ethics charter recognised by the Autorité des Marchés Financiers;
- grant them to employees and senior executives of the Group according to the terms and conditions provided for by law (stock options, employee profit-sharing, allocation of free shares);
- cancel them by means of a reduction in capital within the limits set by law;
- retain them within the limit of 5% of the capital and use them in exchange or payment, in particular as part of acquisitions initiated by the Company, by means of public offering or other;
- implement any other market practice permitted by the Autorité des Marchés Financiers and more generally any transaction in compliance with applicable regulations.

Company shares may be purchased provided the total number of shares held by the Company following such purchases does not exceed 10% of the shares comprising the capital of the Company, this percentage being applied to capital adjusted according to the transactions that may affect it subsequent to the current General Meeting.

Purchase, disposal, exchange or transfer transactions may be carried out by any means, on the market or by private contract, including by acquisition or disposal of blocks, or by recourse to derivative financial instruments, under the conditions provided for by market authorities and in compliance with regulations. The maximum share capital acquired, disposed of, exchanged or transferred by means of a block of securities may relate to the entire buyback programme.

The maximum purchase price is set at €70 per share.

The General Meeting delegates to the Management Board the power to adjust the aforementioned purchase price in order to take account of the incidence of possible financial transactions on the share value. In particular, in the event of an increase in capital by capitalisation of reserves and the allocation of free shares, the price detailed above will be adjusted by a multiplying factor equal to the ratio of the number of securities comprising the share capital before and after the transaction.

The maximum amount to be allocated to the buyback programme is €51 million.

This authorisation remains valid for eighteen months with effect from this day.

The General Meeting vests all necessary powers in the Management Board, with the option to delegate in order to decide on and implement the buyback programme, and in particular to place any orders on the stock market, conclude any agreements, perform any formalities and make any declarations with the Autorité des Marchés Financiers and any other body, and in general, do whatever is necessary to complete the transactions carried out under this authorisation.

This resolution replaces and cancels the authorisation granted by the ninth resolution and approved by the Combined General Meeting of 14 September 2012.

II. RESOLUTIONS IN EXTRAORDINARY SESSION

ELEVENTH RESOLUTION

Delegation of authority to the Management Board to proceed with the allocation of free shares, either existing or to be issued

The General Meeting, acting under the quorum and majority conditions required for Extraordinary General Meetings, having considered the report of the Management Board and the special report of the Statutory Auditors, authorises the Management Board, pursuant to Articles L. 225-197-1 and subsequent of the Commercial Code, to proceed, on one or more occasions, with the free allocation of ordinary shares in the Company, either existing or to be issued, for the benefit of corporate officers as defined by law and of certain employees of the Company and companies related to it.

The General Meeting sets the vesting period at the end of which the allocation of ordinary shares to the beneficiaries will become final, subject to any conditions determined by the Management Board, at a minimum of two years, and sets the mandatory period during which the shares must be held by the beneficiaries at a minimum of two years with effect from the vesting date of the shares.

However, the General Meeting authorises the Management Board not to impose any retention period for the shares concerned, where the vesting period for all or part of one or several allocations is a minimum of four years.

The General Meeting decides that allocations by the Management Board may not exceed the common limit set for all shares granted free of charge under this resolution and/or those resulting from the exercise of options granted under the authorisation resulting from the twelfth resolution to this Meeting, and sets this limit at 1% of the share capital on the date of this General Meeting.

The General Meeting acknowledges that shares allocated free of charge may be either existing shares or shares to be issued, and authorises the Management Board, in the event of free allocation of shares to be issued, to increase the capital at the end of the vesting period, by capitalisation of reserves, profits or issue premiums for the benefit of the beneficiaries of the said shares, with this decision including express waiver by shareholders of their pre-emption right in favour of beneficiaries of free shares on the portion of reserves, profit or premiums thus capitalised, it being noted that the increase in capital will be carried out by the sole fact of the final allocation of shares to the beneficiaries.

The General Meeting grants all necessary powers to the Management Board, which shall be assisted by the Remuneration Committee, within the limits set above, to:

- set the conditions and where applicable, the allocation criteria for ordinary shares;
- set, within the legal conditions and limits, the dates on which the allocations will be effected;
- determine the identity of beneficiaries, the number of ordinary shares allocated to each of them and the terms and method of allocation of ordinary shares.

The General Meeting sets the period of validity of this authorisation at thirty eight months from this date. This authorisation cancels any amounts unused by the Management Board by virtue of the previous authorisation granted by the General Meeting of 14 September 2012.

The Management Board will inform the Ordinary General Meeting every year of transactions carried out under this authorisation in a special report, in accordance with Article L. 225-197-4 of the Commercial Code.

TWELFTH RESOLUTION

Delegation of authority to the Management Board to grant share subscription and/or purchase options

The General Meeting, acting under the quorum and majority conditions required for Extraordinary General Meetings, having considered the report of the Management Board and the special report of the Statutory Auditors, authorises the Management Board, pursuant to Articles L. 225-177 and subsequent of the Commercial Code, to issue, for the benefit of corporate officers as defined by law and of certain employees of the Company and companies related to it, under the conditions specified by Articles L. 225-185 and subsequent and L. 225-186-1 of the Commercial Code, options giving the right to subscribe for new shares in the Company or to purchase existing shares previously bought back by the Company in accordance with the law.

This authorisation, which may be used on one of more occasions, is granted for a period of thirty-eight months with effect from this General Meeting and cancels any amounts unused by the Management Board by virtue of the previous authorisation granted by the General Meeting of 13 September 2010.

However, the allocation of options to corporate officers will only be made on the proposal of the Remuneration Committee and will require approval of the Supervisory Board.

The General Meeting decides that the allocation of options will be within a limit common to all shares arising from the exercise of options that will be granted under this resolution and/or those that will be allocated free of charge under the authorisation arising from the eleventh resolution to this General Meeting, and sets this limit at 1% of the share capital on the day of this General Meeting.

The General Meeting decides that:

- in the event that subscription options are awarded, the subscription price of shares by the beneficiaries will be set by the Management Board the day the options are granted, within the legal limits;
- in the event that purchase options are awarded, the purchase price of shares by the beneficiaries will be set by the Management Board the day the options are granted, within the legal limits.

The General Meeting decides that the Management Board will set the period(s) of exercise of options thus granted, subject to legal prohibition, it being noted that the options may not be valid for a period in excess of 8 years from their date of allocation. The Management Board may also prohibit the immediate sale of subscribed or acquired shares, without however the timeframe imposed for the retention of securities exceeding three years from the exercise of the option.

The General Meeting delegates all necessary powers to the Management Board to implement this resolution and establish the regulations of the option plan within the legal and regulatory limits, and notably to:

- approve the list or categories of the beneficiaries;
- set the period(s) of exercise of the options.

However, the list and categories of beneficiaries whose identity will be determined by the Management Board, the conditions of grant, the release and exercise must meet the characteristics set by the Remuneration Committee and be approved by the Supervisory Board, according to what it considers most appropriate to ensure the motivation and loyalty of the beneficiaries of these options.

The General Meeting notes that this authorisation carries, for the benefit of beneficiaries of options, the express waiver by shareholders of their pre-emption right to subscribe to shares that will be issued as the options are exercised.

Capital increases arising from the exercise of options to subscribe for shares will be considered final by mere declaration of the exercise of the option together with the related payment in cash or by being offset against the Company's liabilities.

Pursuant to Article L. 225-184 of the Commercial Code, the Management Board, in a special report, will inform the shareholders every year, at the time of the Ordinary General Meeting, of the transactions carried out under this authorisation.

THIRTEENTH RESOLUTION

Delegation of authority granted to the Management Board to increase the share capital without waiver of pre-emption right through a private placement for the benefit of qualified investors or a restricted circle of investors

The General Meeting, acting under the quorum and majority conditions required for Extraordinary General Meetings, having considered the report of the Management Board and pursuant of the provisions of the Commercial Code, and in particular Articles L. 225-129, L. 225-129-2, L. 225-135 and L. 225-136,

- delegates to the Management Board, with the option to sub-delegate, subject to the conditions set by law and by the bylaws, the authority to decide on one or more increases in the share capital of the Company, in the proportion and at the times it decides, by the issue, in one or more offerings as defined by II of Article L. 411-2 of the Monetary and Financial Code, of ordinary shares, as well as all marketable securities, either issued for valuable consideration or free of charge, giving access by all means, immediately and/or in future, to new or existing ordinary shares in the Company, it being specified that the subscription to these shares and marketable securities may be made in cash, by offsetting against current liabilities to be settled in cash, against due and payable debts, or by capitalisation of reserves, profits or premiums;
- decides that the maximum nominal increase in share capital likely to be carried out immediately or in the future under this authorisation is set at 10% of the share capital at the date of this General Meeting with the stipulation that in any event, the issue of securities executed in this context must remain within the limits specified by the law; if applicable, the nominal amount of any shares potentially issued in addition to this limit, in the case of new financial transactions to maintain the rights of holders of securities giving access to capital, will be added to the said limit;
- decides that this delegation is given for a period of twenty six months from the date of this General Meeting;
- decides to cancel the pre-emption right of shareholders to subscribe for securities issued under this resolution;
- notes that, where appropriate, this delegation implies, for the benefit of holders of marketable securities issued giving access to the capital of the Company, waiver by shareholders of their pre-emption right to subscribe to shares to which these marketable securities give the right, immediately or in the future;

- decides that the issue price of shares will be calculated in accordance with legal and regulatory provisions applicable on the date of issue (to date, the weighted average of the last three stock market trading days preceding the date of the setting of the subscription price for the capital increase, less a maximum discount of 5% thereafter, if applicable, correction of this average in the event of a difference between the dates of transfer of ownership);
- gives all necessary powers to the Management Board, with option to sub-delegate in accordance with the law and bylaws, to implement this authorisation and in particular to set the conditions of issue, the nature and features of the marketable securities giving access to capital, the methods of allocating the capital securities to which these marketable securities give the right, as well as the dates on which the rights of allocation may be exercised, at its sole discretion to allocate the costs of increase in capital to the related premiums and transfer from this amount the sums necessary to increase the legal reserve, make any adjustments to take account of the impact of transactions on the capital of the Company, conclude any agreements, in particular to ensure the successful completion of the issues envisaged, note the completion of any increases in capital, change the bylaws accordingly, perform the necessary formalities and in general do whatever is necessary;
- notes that, in the event that the Management Board uses the delegation of authority granted to it by this resolution, the Management Board will request the prior approval of the Supervisory Board and report to the next Ordinary General Meeting, pursuant to the law and regulations, on the use made of the authorisations granted by this resolution;
- decides that this delegation replaces the authorisation granted by the Combined General Meeting of 14 September 2011.

FOURTEENTH RESOLUTION

Delegation of authority granted to the Management Board to increase the share capital for the benefit of employees of the Group

The General Meeting, acting under the quorum and majority conditions required for Extraordinary General Meetings, having considered the report of the Management Board and the special report of the Statutory Auditors and pursuant to Articles L. 225-129-2, L. 225-138, L. 225-138-1 of the Commercial Code and L. 3332-1 and subsequent of the Labour Code, and this in order to fulfil the provisions of Article L. 225-129-6, Paragraphs 1 & 2 of the Commercial Code,

- delegates to the Management Board, with the option to sub-delegate under the conditions foreseen by law and the bylaws, the authority to decide on one or more increases in the Company's share capital, in the proportion and at the times it deems appropriate, by issuing shares or marketable securities giving access to the capital of the Company and reserved for employees enrolled in a company savings plan of the Company or a related company, up to a maximum nominal amount of 1% of the share capital on the day of this Meeting;
- decides that this authorisation is granted for a period of twenty six months from the date of this General Meeting;
- decides to waive the pre-emption right of shareholders to subscribe for securities issued under this resolution;
- grants full powers to the Management Board, with the option to sub-delegate under the conditions set by law and the bylaws, to implement this delegation and in particular to set the price and terms of issue, the nature and characteristics of marketable securities giving access to capital, the method of the allocation of shares to which these marketable securities give the right as well as the dates on which the allocation rights may be exercised, at its sole discretion charge the costs of capital increases against the amount of related premiums and to deduct from this amount the sums necessary to fund the legal reserve, to carry out any adjustments to take account of the impact of transactions on the capital of the Company, to conclude any agreements in particular to achieve the successful completion of the proposed issues, to record any capital increases, to amend the bylaws accordingly, to perform the necessary formalities and generally do whatever is necessary.

III. RESOLUTION IN BOTH SESSIONS

FIFTEENTH RESOLUTION

Powers for formalities

The Annual General Meeting confers full powers to the bearer of copies or excerpts of the minutes recording its decisions to carry out all the legal formalities of publication.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

CHAIRMAN'S FOREWORD

As an industrial group, Faiveley Transport has a particular duty to be aware of issues affecting social and environmental responsibility.

Moreover, this year, emphasis has been placed on corporate and business ethics with an ethics charter improving awareness across the entire workforce. Likewise, the creation of an Internal Control Department led to an audit of Group procedures, which are now contained in an internal control manual, published at the beginning of 2013. All the Group's site managers and Finance Directors will receive training in 2013 on the rules and procedures included in this internal control manual. They will then be responsible for improving processes and practices at each site in line with this common internal control framework. Lastly, in addition to this improvement in internal control, a collection of best practices has been compiled within the Faiveley Management System in order to improve internal processes as a whole across all the Group's businesses (production, purchasing, logistics, engineering, etc.).

Through its industrial activities, the Group inevitably finds itself at the centre of current issues related to sustainable development: importation of materials covered by the REACH regulation, transport related CO_2 emissions, waste generation, etc. The Group, which is made up of subsidiaries based around the world, subject to different laws and regulations, has determined on a single course of action to be adopted across the entire Group, and which has been incorporated into the Faiveley Management System. The rollout of this excellence strategy is underway within the Group's industrial entities.

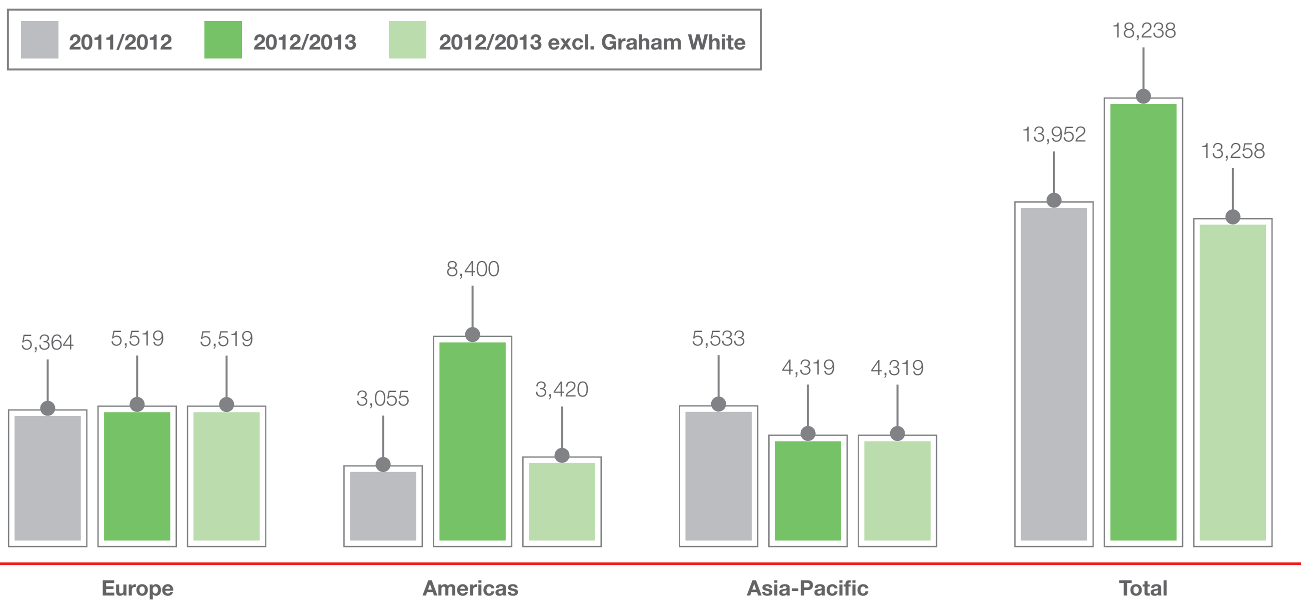
Within this framework, the Group has drawn up a set of improvement commitments, which can be broken down into six distinct areas:

- increasing carbon footprint assessments within the Group's industrial entities;
- innovating for the planet;
- avoiding pollution and waste generation;
- promoting training;
- striving for diversity;
- ensuring the integration of young people.

The key indicators for the 2012/2013 financial year are as follows:

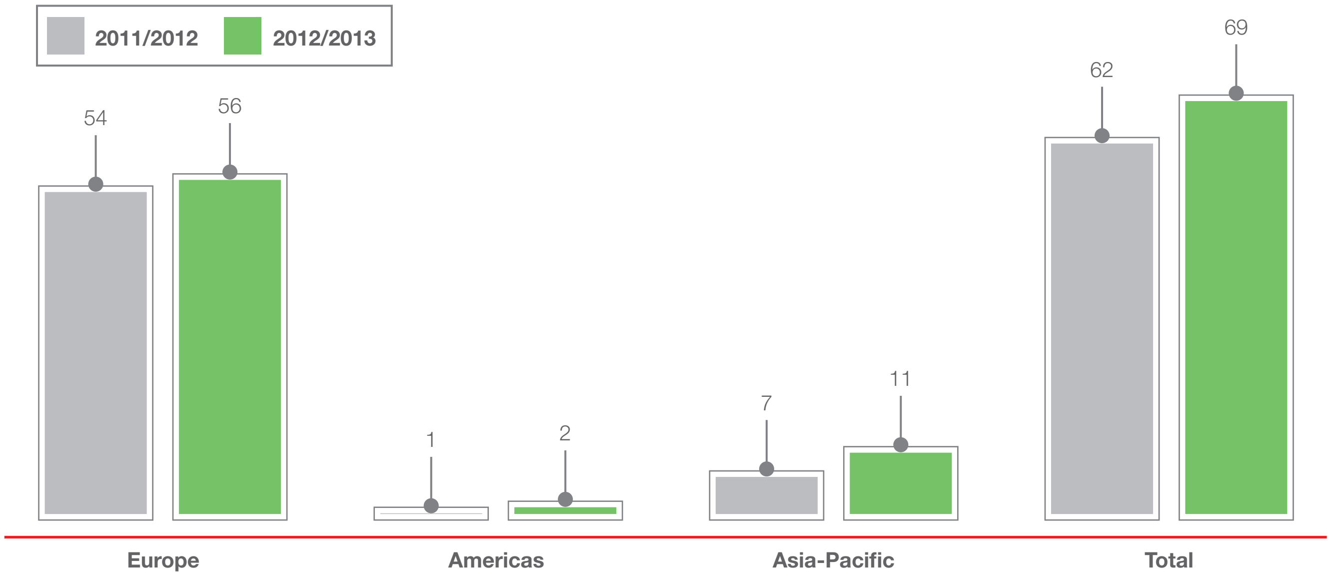
- CO_2 emissions;
- work-related accidents;
- ISO 14001 certified sites;
- paper recycling.

CO_2 EMISSIONS FROM THE GROUP'S ELECTRICITY CONSUMPTION[1]

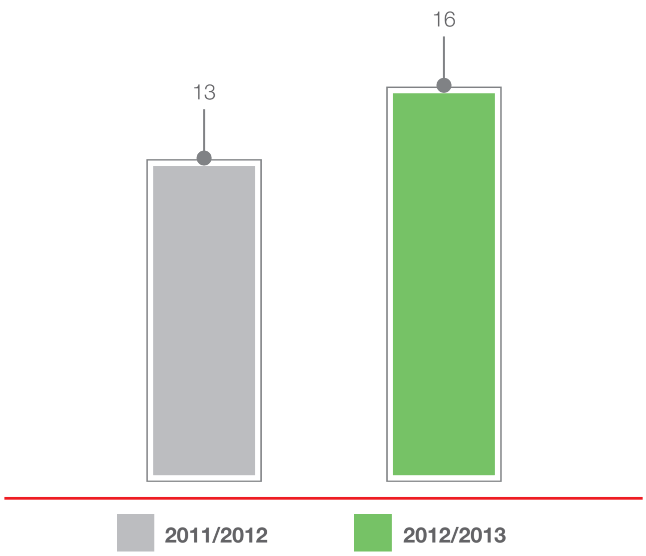


(1) Data obtained from the International Energy Agency's 2010 framework, quantifying CO_2 emissions based on the source of electricity output per country.

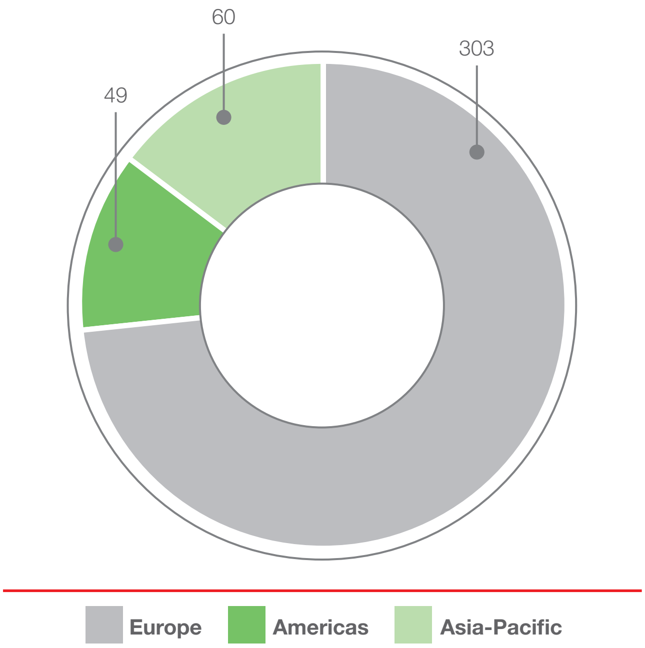
WORK-RELATED ACCIDENTS RESULTING IN WORK STOPPAGE



NUMBER OF ISO 14001 SITES



PAPER RECYCLING (IN TONNES)



INTRODUCTION
FAIVELEY TRANSPORT'S CONTEXT

The transport of people and goods generates an impact, not only locally on air and water quality, but also globally through greenhouse gas emissions. The transport sector is now responsible for more than a quarter of total emissions and is one of the few industries to see its worldwide emissions steadily increasing.

Suffocating towns, congestion, carbon footprint, global warming – for several years now, the theme of sustainable development cannot be ignored and is a major political and economic argument in most countries.

In terms of mobility, roads have reached their limits whether in terms of maximum speed, which is limited in almost every country, or average speed, because of congestion problems.

The use of rail transport – trains, metros or tramways – is a way of moving over to sustainable mobility.

In fact, as far as emissions and energy consumption are concerned, rail is the most sustainable mode of collective transport globally. It generates less than 1% of the world's greenhouse gas emissions (GHG). According to a recent ADEME study, greenhouse gas emissions from rail transport are estimated to be between 10 and 20 times lower than car or air transport, per passenger and per kilometre travelled.

The facts are as follows: The IPCC (Intergovernmental Panel on Climate Change), created in 1988 by the UN, considers that in order to maximise its chances of limiting global warming to 2°C, the human race must halve its greenhouse gas emissions by 2050. In Europe, in accordance with the Lisbon treaty which supports sustainable economic development, reducing CO_2 emissions by 20% before 2020 is a major objective:

- 20% improvement in energy efficiency;
- 20% reduction in greenhouse gas emissions compared with 1990;
- 20% of the European energy mix to be renewable forms.

Rail transport contributes to the achievement of these goals.

The development of the rail market supports the growing needs created by a growing population, excessive urban concentration, road congestion and environmental concerns.

The depletion of fossils fuels, rising fuel prices, global warming and global environmental awareness all promote the rail industry. With the lowest level of greenhouse gas emissions per kilometre covered, rail transport is amongst the most environmentally friendly modes of transport. Users are led to make environmental impact a key factor in their choice of transport.

Between now and 2015, there will be more than 500 mega-cities worldwide each with more than a million inhabitants. In Europe, almost 200 cities have limited town centre access to polluting vehicles. The "Low Emission Zone", applied in particular in London, Berlin and Lund (Sweden) is coming to France under the name "Zapa" (priority air quality zone). European regulations in fact require member states to respect "PM10" fine particle exposure limits.

Furthermore, rail has a far smaller foothold in geographic terms than the road sector but its transport capacity is much higher. These factors are now of paramount importance in urban planning.

For example, making metro trains automated means savings of 10 to 15% in electricity consumption thanks to optimal speed management as well as savings on the wear and tear of replacement parts. The installation of platform doors supplied by Faiveley Transport, fundamental to making metros automated, contributes to these savings, but also addresses the problem of heating and air conditioning-related waste in stations.

That said, in addition to climate change, the rail industry, like every other industry, faces significant challenges, including the scarcity of resources, the increase in the cost of fossil fuels and raw materials and stricter regulations relating to emissions, noise and land use.

The entire industry is rallying its employees, its customers and its suppliers in a drive to recycle and dispose of products at the end of their useful life. As an example, for SNCF equipment, the objective is to recycle 85% of train components, to value 90% of them and to use the recycled materials in their manufacture. As a supplier to most rail vehicle manufacturers worldwide, Faiveley Transport is making its contribution.

A growing number of customers are requesting energy audits but are also making demands in terms of sustainable development (low mass, brake energy regeneration, reduced noise, high recyclability rate, use of hydro-soluble paints. Faiveley Transport products help to satisfy these requirements.

Train and rail operators have largely developed a comprehensive roadmap to achieve a zero carbon impact by 2050. European operators, such as the SNCF in particular, aim to reduce CO_2 emissions by 40% for passengers and by 33% for the transport of goods (in t/km) by 2020.

Sustainable development criteria are increasingly taken into account when selecting partners (and especially in the case of the leading manufacturers Alstom, Bombardier and Siemens).

All this is leading towards a change in social attitudes, which can only benefit the rail industry and in which Faiveley Transport Group is naturally and necessarily involved.

The Group is increasingly sensitive to the social aspects of sustainable development, for example those relating to access for the disabled or the elderly. Due to its high technological standards in these areas, Faiveley Transport can be involved in all new programmes.

Faiveley Transport seeks to limit the environmental impact of its own activities and has set itself five targets within this area:

- to reduce its energy consumption;
- to reduce its greenhouse gas emissions;
- to reduce its water usage;
- to effectively sort and recycle its waste;
- to increase the number of industrial sites with ISO 14001 certification.

Corporate and environmental performance rests on the commitment and skills of the workforce. The Group encourages their initiatives, raises awareness amongst them and oversees their training.

It is important to Faiveley Transport that its teams feel confident in order to create empathy with customer, supplier or anyone else they are dealing with. A human resources approach based on the promotion of diversity and a meaningful dialogue between teams and their superiors is in place in order to continually improve working conditions in line with the expectations of each employee. Equally, this requires building upon the Company's expertise and ensuring that all employees behave in an ethical manner. This also requires improvement in the quality of working life, reduction in heavy manual labour and an increase in wellbeing within the Company.

The focus of Faiveley Transport's activity is at the heart of environmental concerns aimed in particular at fighting global warming and the reduction of greenhouse gas emissions.

By turning eco-mobility into the central plank of sustainable development, most western countries are creating a real opportunity for growth and job creation in the rail industry.

Therefore, for Faiveley Transport, world leader in equipment for railway rolling stock, it represents an extraordinary development opportunity.

The aim of this report is therefore to reconcile Faiveley Transport's strategy with sustainable development objectives, and to detail what has already been implemented within the Group, but also to highlight tomorrow's methods that will enable it to better satisfy these new demands.

8. ENVIRONMENTAL INFORMATION

8.1 ENERGY SAVINGS, WATER MANAGEMENT AND BIODIVERSITY: KEY INDICATORS

8.1.1 DATA

For a number of years, the Group has been collecting data on the energy consumption of all its sites. This information enables the Group to be in keeping with greenhouse gas emission reduction objectives, established at an international level, in particular within the framework of the European Union's commitments.

GAS CONSUMPTION AT THE MAIN INDUSTRIAL SITES DURING THE FINANCIAL YEAR ENDED 31 MARCH 2013 (IN KWH)

Geographic region	2012/2013	2012/2013*	2011/2012
Asia-Pacific	132,340	132,340	145,492
Europe	17,627,394	17,627,394	19,838,395
Americas	6,194,577	10,800	8,200
TOTAL	**23,954,311**	**17,770,534**	**19,992,087**

* *Not including Graham-White Manufacturing Co.'s consumption.*

Gas consumption over the financial year fell 11% on a like for like basis.

For the Americas region, the increase in consumption is exclusively due to the integration of Graham-White Manufacturing Co., which was acquired in February 2012. Anti-leak systems for gas were installed on the industrial sites using primarily this energy source.

ELECTRICITY CONSUMPTION AT THE MAIN INDUSTRIAL SITES DURING THE FINANCIAL YEAR ENDED 31 MARCH 2013 (IN KWH)

Geographic region	2012/2013	2012/2013*	2011/2012
Asia-Pacific	4,658,649	4,658,649	6,509,749
Europe	20,380,031	20,380,031	21,357,858
Americas	16,351,640	6,812,000	6,111,820
TOTAL	**41,390,320**	**31,850,680**	**33,979,427**

* *Not including Graham-White Manufacturing Co.'s consumption.*

The general trend noted within the major production sites is a decrease in electricity consumption, despite a cold end to the winter in Europe. For the Americas region, the increase in consumption is a result of the change in reporting scope following the acquisition of Graham-White Manufacturing Co. A significant drop in consumption was reported in China. The sites are constantly improving their lighting and electric heating systems. This year, the emphasis was put on better management of the settings of air conditioning devices, with high and low temperatures capped to save on this source of energy. Faiveley Transport Tours has invested in LED light bulbs at a cost of €7.5 thousand.

WATER CONSUMPTION AT THE MAIN INDUSTRIAL SITES DURING THE FINANCIAL YEAR ENDED 31 MARCH 2013 (M³)

Geographic region	2012/2013	2012/2013*	2011/2012
Asia-Pacific	42,189	42,189	56,975
Europe	23,674	23,674	34,013
Americas	162,406	11,532	5,627
TOTAL	**228,269**	**77,395**	**96,615**

** Not including Graham-White Manufacturing Co.'s consumption.*

There has been an overall downward trend in water consumption on a like for like basis, due to the implementation of specific measures by certain sites, particularly in France and China. The increase in water consumption in the Americas region is due to the water consumption of Graham-White Manufacturing Co. being taken into account.

Leak detection devices and leak-proof safety systems have been widely implemented at the sites.

IMPACT OF THE ACTIVITY ON THE ENVIRONMENT

The Group's production activities, by their nature, generate little waste in the environment. Nevertheless, the optimisation of environmental protection is one of the priorities for the Group whether in France or in its foreign subsidiaries. To that end, the Group takes initiatives to integrate environmental concerns into the management of its operations and facilities, in order to:

- comply with the legal and regulatory requirements that apply to all sites;
- find solutions that limit the impact of operations on the environment, prevent pollution and ensure continuous improvement in economic competitiveness;
- reduce non-renewable energy consumption and improve the quality of waste gases as well as improving waste sorting;
- contribute to the business and social aspects of sustainable development.

It must be noted that the Group's activities have very little impact on biodiversity and the likely causes of an attack on it are easily managed (retention ponds, elevated tanks, correct storage of solvents and paint). The Group took full note of the Environment Public Liability Directive 2004/35/CE, adopted on 21 April 2004, on environmental responsibility in respect of the prevention and restoration of environmental damage. By this text, which was transferred into French law, a Group operation that damages fauna or flora is required to reverse the damage done or to bear the associated costs. Faced with this new regulation, the Group increased its attention to the protection of the environment and implemented the various options to cover this new area of liability with its insurers.

8.1.2 METHOD

To be fully effective, the procedures aimed at ensuring the correct application of environmental, health and safety regulatory provisions are decentralised and controlled by each of the main industrial sites. Environmental, health and safety costs are budgeted at site or unit level and recognised in the consolidated income statement.

The year 2012/2012 saw the continuing implementation of procedures and methods aimed at providing better management of legal provisions, objectives and rules in terms of environmental management.

The sites continued to take steps with a view to achieving ISO 14001 certification. This process is essential to meet customers' expectations and improve the public authorities and shareholders' trust in the Group. At 31 March 2013, 16 entities, including the Group's main industrial sites, have been awarded ISO 14001 certification in relation to their environmental management. The Group has around twenty large-scale industrial sites. Nowe, Faiveley Transport Birkenhead and Faiveley Transport Tamworth were all awarded certification during the financial year.

In addition, in July 2011 the Group relocated its head office to a building in Gennevilliers, which has already been certified for HQE (High Environmental Quality). Faiveley Transport has a representative on the Green Committee that manages environmental aspects within the building.

The Group seeks to bring all French and foreign sites together in a regular and genuine gathering of environmental information. This collective commitment led to the setting up of a general supervision programme at the sites.

Each of the Group's main industrial sites has established a set of objectives to reduce energy, water and raw material consumption, curb local impacts (noise pollution, etc.) and promote waste recycling. The Company's process is decentralised: each unit is responsible for its environmental self-assessment, for defining an action plan and associated objectives and for reporting its own environmental data.

Every site concerned has implemented regulatory monitoring, carried out an environmental analysis of its activities and identified actions to ensure compliance with standard and environmental regulations, such as the management of waste and chemicals.

As part of this monitoring, possible irregularities and potential sources of nuisance or unnecessary energy consumption are specifically targeted for observation: an example of this is the battle against noise and the particular measures taken to remedy this issue in all the Group's industrial sites.

This year Faiveley Transport Tours carried out its first carbon footprint assessment in accordance with current French legislation. This assessment is mandatory in France for all corporate bodies under private law employing more than 500 people. It must be published and updated every three years.

In 2011, the base year selected, this Group subsidiary, which specialises in on-board door equipment and mechanisms, passenger information, and energy sensors and convertors (€140 million sales for around 650 employees on three sites) generated 2,443 tonnes of CO_2 equivalent in greenhouse gas emissions. The main emission items are the high consumption of natural gas, which is dependent on outdoor temperature and air humidity conditions, electricity consumption and mobile consumption (vehicles). Refrigerant leaks also constitute a considerable source of greenhouse gases. Action has been taken on the air conditioning systems to limit refrigerant leaks.

This assessment is available in full on the Group's website.

As regards recycling, some of the Group's companies, particularly in Europe and the United States, make use of relevant indicators to monitor the recycling of the main raw materials used in their industrial operations.

Raw materials	Aluminium	Steel	Ferrous metals
Volume recycled *(in tonnes)* in 2012/2013	270	738	1,454

The Company does not disclose specific data regarding the consumption of raw materials within the Group. In fact, the Group's industrial operations are mainly based on the purchase of components, equipment and finely honed parts, and not on the purchase of unprocessed raw materials. In this context, data relating to the Group's consumption of raw materials would be neither relevant nor appropriate to Faiveley Transport's industrial operations.

8.2 PRACTICAL MEASURES IMPLEMENTED TO LIMIT ENVIRONMENTAL DAMAGE

Through its products and its engineering teams, Faiveley Transport is utterly committed to this sustainable development strategy and is making it a priority. The potential for making the rail sector more environmentally friendly by reducing energy consumption is still considerable and is the subject of significant research within the Group, which is distinguishing itself by its innovations in the field.

The Company's sustainable development strategy is based on the following principles:

- to contribute, through its technical excellence, to bringing to market products that make the train even more attractive to passengers;
- to analyse the environmental effects of the life cycle of the products manufactured;
- to use recyclable materials and identify the components requiring special end of life handling;
- to eliminate materials that are hazardous to health or the environment;
- to improve energy efficiency and reduce emissions into the atmosphere, consumption of resources and waste;
- to ensure suppliers apply the Group's economic, social and environmental principles.

Numerous measures have already been implemented within the Group across all its main industrial sites. Here is a summary that also gives an idea of the areas in development:

Environment

- Receipt of or application for ISO 14001 certification within the Group;
- On-going regulatory compliance project (particularly relating to REACH with the creation of a database). Adoption of a Group strategy;
- Appointment of a QHSE (Quality, Health, Safety and Environment) engineer or coordinator at the industrial sites, responsible for verifying compliance with environmental regulations;
- Replacement of certain substances (for example, replacement of solvent-based paints with hydro-soluble paints);
- Preparation for the entry into force of RoHS standards for industrial products;
- Integration of environmental criteria into the management system.

Energy efficiency

- Action plan to reduce water, energy and paper consumption;
- European action plan to reduce waste generation and ensure its processing;
- Better management of resources, including human. Strategy included in the Faiveley Management System;
- Report on the energy efficiency of the European sites, carbon assessment;
- Project on insulation and reducing noise pollution;
- Working groups on water conservation;
- Campaign to identify and stop gas and air leaks from compressors which result in machine over-consumption.

Waste, packaging, transport

- Use of reusable packaging, for transportation between the Company and suppliers or customers; reduction in the amount of packaging used;
- Reduction in the volume of waste, specifically in relation to the wooden delivery crates;
- Project to optimise transport with deliveries for a single customer grouped together on a set day;
- Project on packaging and ability to recycle;
- Logistical resources close to production sites;
- Local sourcing of spare parts for the Services activity.

Eco-design

- Development of rules for the use of materials in product design and development;
- Door panels painted without solvent-based paint;
- Retrofitting of former air conditioning systems using less harmful and more energy efficient products;
- Design and marketing of nickel free brakes;
- Design of leak detection systems on air conditioning systems;
- Air quality sensor technologies on air conditioning systems;
- Modular and lightweight design of braking systems;
- Development and commercialisation of electronic systems for measuring the power consumption of locomotives, in order to assist eco-driving;
- Installation of platform doors that completely isolate the platform, so reducing the cost of air conditioning stations;
- Project on door design to make them more lightweight, work in general to streamline products and improve the energy efficiency of the end-product;
- Project aimed at discontinuing the use of chrome 6, lead, cadmium and mercury;
- Introduction of eco-design training for engineers.

In addition to the exercise of the above controls, various new measures were introduced during the last year:

- installation of heat exchangers and heat recovery systems;
- insulation of facilities;
- waste containers;
- reduction of packaging waste (wood, plastic, cardboard) and all associated processing costs;
- water recovery systems;
- paper recycling;
- particle filters to reduce air emissions;
- smoke extraction systems;
- retention basins and waste water disposal systems;
- centralised suction system with filters for sanding and painting booths;
- compliance of fire-fighting water retention ponds with standards;
- outsourcing of alodine bath treatment (to avoid cyanide releases);
- safety device to protect against natural occurrences.

A significant reduction in environmental impact was also noted following the investment in cleaning machines that resulted in reduced water and solvent consumption and waste, at the sites dedicated to the Services activity and also due to substantial investment at the Saint-Pierre-des-Corps site to double the production capacity in water-soluble paint and to comply with regulations on the discharge of Volatile Organic Compounds (VOCs). The new processes and systems can thus avoid any discharge of polluting compounds into the atmosphere.

Faiveley Transport Amiens has invested in an automated greasing system for its devices and machines. The advantages of this system are an almost 15% reduction of soiled packaging waste and the prevention of musculoskeletal (MSDs) disorders for operators, who no longer have to apply grease with a brush.

The Faiveley Transport Tours sites, situated between the Loire and the Cher rivers, will also be subjected to a vulnerability assessment to define measures to reduce exposure to flooding. The aim is to identify strategic areas of the Company, to establish a potential disaster scenario, to define the weaknesses and rank them in order of significance. The aim is to implement an emergency procedure which will protect the Company's vital interests and at the same time help prevent potential harm to the environment, such as pollution from solvents, oils, paint, acid, etc. This entity has also completely updated its solvent management plan methodology to ensure it conforms to regulations on fugitive emissions.

It should be noted that the Group's German sites launched a tree planting campaign close to their plants. More than 40 trees were planted in this regard on the Nowe site in 2012.

Lastly, the Group is committed to raising awareness among its suppliers by assessing their environment credentials.

8.3 THE LATEST TECHNICAL INNOVATIONS THAT PROTECT THE ENVIRONMENT

The concept of sustainable development involves a long-term vision, rather than simply taking into account short term goals. This approach must also enable economic benefits to be made. The first objective is to finalise compliance with applicable standards, and in particular the REACH regulation. It is also essential to anticipate future developments by analysing current trends. The R&D Departments are particularly proactive in order to satisfy the demands of tomorrow. It is in this way that Faiveley Transport will maintain its competitive advantage as an industrial group at the cutting edge of technology.

Faiveley Transport Group is therefore committed to the design and development of products that contribute to sustainable development. Here are some concrete examples:

- At the core of its electro-mechanical systems development activity, the Group has created an energy meter christened "DEMETRA", an innovative system that has been patented. It provides an integrated and optimised solution to the demands of opening the market to competition. It will be possible to issue an individual electricity invoice for each train. This system will also enable the development of an aid for economic driving, which will optimise energy usage.
- Amongst converter products, the development of KATIUM is an illustration of the Group's policy to promote sustainable development. This patented design allows the manufacture of auxiliary converters of significantly reduced weight and volume. Thanks to these gains, substantial energy savings may be made.
- The Group's air conditioning system ("HVAC") product line is also committed to respecting the environment, particularly through its "Green HVAC" programme, which aims to limit the energy consumption of its products and, as a result, actively fight global warming. An analysis of the life cycle of trains has shown that, from production through to the recycling of end of life materials, the train's air conditioning alone was currently responsible for 30% of the potential global warming caused by the train; it is the actual equipment itself which represents the largest energy consumption within the train, excluding traction equipment, and as a result, the biggest energy saving potential.

  A full range of Green HVAC equipment is offered to Faiveley Transport customers: primarily a hot air pump which offers a 44% reduction in energy consumption over one year, an optimisation system to recover external air adjustable according to the number of passengers on the train (trains equipped with a passenger counter), a system to monitor refrigeration, and an alternative refrigeration mode such as CO_2.

  In 2012/2013, the success of the "Green HVAC" project was confirmed and sales of more environmentally friendly products continue to grow, together with the following projects, which are amongst the most important to the Group: Porteur Polyvalent and Métro Montréal for Alstom Transport, DOSTO FV for Bombardier, and ICX and VELARO D for Siemens.

  In conclusion, the importance of Green HVAC equipment is clear and understood by the Group's customers. With this innovative project, Faiveley Transport has shown that is it looking to the future and is promoting a sustainable development approach.
- Over the last four years, Faiveley Transport Amiens has been committed to a research project entitled "Light Brake C3" (Compact Caliper Concept). This project was developed within the framework of the I-Trans global competitive cluster bringing together leaders in the fields of industry, research and training in the rail sector and ground transport systems based in the Nord-Pas de Calais and Picardie regions.

  The "Light Brake C3" project enabled the development of a rail braking system enabling the streamlining of rolling stock. Thus a more flexible and more environmentally friendly system has been introduced meaning the rolling stock can handle a higher load capacity and travel at higher speeds.

  As well as an improvement in energy consumption, the streamlining of the braking system that was at the heart of the "Light Brake C3" project also facilitates maintenance and recycling when the parts reach the end of their useful life.
- The equipment proposed by Faiveley Transport Gennevilliers as part of its sintered brake activity (brake shoes and pads) use completely recyclable raw materials and components. In addition, the techniques employed allow the axle weight to be reduced, and in consequence, energy consumption and maintenance costs too.
- The BURAN type compressors constitute a new generation of oil free compressors that have now been now approved and adapted to the various market sectors. This technology has become the standard reference point in all Faiveley Transport's offers both for new rolling stock and for the retrofitting of old equipment, in both Europe and North America. This new generation has a substantial impact in terms of recycling, handling and maintenance and therefore helps to protect the environment.

8.4 CORPORATE AND SOCIAL IMPROVEMENTS

This year the Group has focused on numerous social and corporate initiatives. Here are the principal initiatives:

Management of human resources, safety and working conditions

- Providing information to employees on site *via* emails and leaflets, raising awareness on waste sorting and paper consumption, with a monthly reminder;
- Monthly briefing led by the Site Director on the monitoring of environmental indicators and safety;
- Consideration given to employee suggestions *via* operational or quality improvement programmes (QRQC, TOP5);
- Implementation of an initiative to integrate safety into the quality and environment management system: leader-coordinator presence on most industrial sites to manage health, safety and environmental issues on a daily basis;
- Investment in appropriate gripping tools;
- Ethics and IT charters.

Supplier commitment

- Service providers and suppliers to be equally committed to optimising transport and packaging;
- Working with the Design Offices to integrate these criteria into the plans;
- Addition of an "ISO 14000 certification and social responsibility" criterion in the "Quality and Quality System Certification" used in the selection of suppliers;
- Adherence to the principles of sustainable development proposed by manufacturers.

Sponsorship and Partnership

- University collaboration on eco-design: writing in Sweden of a thesis on the search for an ecologically viable design and development process; and the development of pneumatic and dynamic algorithms-based software to calculate the longitudinal forces between rail vehicles, with the Tor Vergata University of Rome.

The Group's ethics charter was rolled out individually across all the sites. This document helps promote ethical conduct in day-to-day working relationships particularly with regard to the management of employment practices, in respect of any form of harassment and of safety. The charter also sets out clear and detailed guidance on managing any potential conflicts of interest and illegal or inappropriate payments.

Suggestions from Faiveley Transport employees contribute to the future wellbeing of passengers. The commitment, expertise and enthusiasm of employees are the keys to success. To maintain a dynamic and creative workforce, it is paramount that employees remain individuals highly qualified in their field, that they are committed to the Company, in addition to providing them with safe and healthy working conditions. To maintain its competitive advantage, the Group must attract, develop and retain the best talents, in Asia, in Europe and in the Americas.

The Group has continued in its efforts to improve its health and safety performance at all the sites. Each site has expanded the use of key indicators to improve safety awareness and reinforce the safety culture.

A pragmatic approach to product design in respect of safety, aimed at identifying, managing, reducing and eliminating work related health risks right from the initial stages of product development, was implemented across the Group's main sites.

All the Group's sites duly share and respect the principles and provisions of core International Labour Organisation conventions, and in particular:

- freedom of association and the right of collective bargaining;
- elimination of discrimination in respect of employment and occupation;
- banning of forced or compulsory labour;
- banning of child labour.

9. WORKFORCE INFORMATION

9.1 HUMAN RESOURCES INDICATORS

9.1.1 ANALYSIS AND CHANGE IN WORKFORCE

At the end of March 2013, the Faiveley Transport Group had 5,483 employees across 25 countries worldwide. The change in the workforce at the end of the last two years was as follows:

GEOGRAPHIC ANALYSIS

	31 March 2013	31 March 2012
France	1,262	1,260
Europe (excl. France)	2,032	1,937
Americas	745	784
Asia/Pacific	1,444	1,488
TOTAL	**5,483**	**5,469**

ANALYSIS OF WORKFORCE BY TYPE OF EMPLOYMENT CONTRACT

	31 March 2013		31 March 2012	
	Permanent	Fixed term	Permanent	Fixed term
France	1,235	27	1,217	43
Europe (excl. France)	1,825	207	1,808	129
Americas	745	-	749	35
Asia-Pacific	1,368	76	1,385	103
TOTAL	**5,173**	**310**	**5,159**	**310**

FEMALE EMPLOYEES AT 31 MARCH 2013

	France	Europe (excl. France)	Americas	Asia-Pacific	Total
Female executives	1	-	-	-	1
Female managers	78	23	8	26	135
Female employees	117	268	65	164	614
Female operatives	54	59	66	28	207
TOTAL	**250**	**350**	**139**	**218**	**957**
as % of total workforce	*20%*	*18%*	*19%*	*15%*	*18%*

The distribution of women across the workforce is uniform within the Faiveley Transport Group. The percentage of women in the Group has remained stable compared to the previous financial year.

ANALYSIS OF WORKFORCE BY ROLE

Role	31 March 2013	31 March 2012
Production	2,113	2,532
Purchasing, logistics and storage	971	798
Sales and marketing	359	470
Design office	767	749
Project management	180	275
Finance	212	193
Human resources and communications	79	77
IT	78	68
Administration	77	185
Research and development	113	123
After-sales/Field services	488	-
General services	46	-
TOTAL	**5,483**	**5,469**

Each job description was redefined over the course of the financial year and was forwarded to the all the Site HR managers. This is why there are significant differences compared to the previous financial year. In particular, several positions related to general services and after-sales service activities were created.

ANALYSIS OF WORKFORCE BY AGE AT 31 MARCH 2013

Age	France	Europe (excl. France)	Americas	Asia-Pacific	Total	%
<24	37	66	34	112	249	5%
25-30	160	251	71	463	945	17%
31-35	155	294	82	330	861	16%
36-40	187	310	91	205	793	14%
41-45	244	294	99	124	761	14%
46-50	199	280	105	98	682	12%
51-55	154	247	101	65	567	10%
56-60	112	186	99	38	435	8%
>60	14	104	63	9	190	4%
TOTAL	**1,262**	**2,032**	**745**	**1,444**	**5,483**	**100%**

In order to provide a better picture of the workforce distribution by age, the number of age ranges has been increased and it can therefore be seen that the breakdown in workforce by age is uniform. 61% of Faiveley Transport Group's workforce is aged between 25 and 45 years.

ANALYSIS OF WORKFORCE BY LENGTH OF SERVICE AT 31 MARCH 2013

	France	Europe (excl. France)	Americas	Asia-Pacific	Total	%
< 2 years	178	401	194	353	1,126	20%
2-5 years	186	424	152	605	1,367	25%
5-10 years	220	360	174	290	1,044	19%
10-15 years	132	299	62	40	533	10%
15-20 years	164	126	59	97	446	8%
20-25 years	181	111	43	13	348	6%
25-30 years	90	97	22	44	253	5%
>30 years	111	214	39	2	366	7%
TOTAL	**1,262**	**2,032**	**745**	**1,444**	**5,483**	**100%**

In order to provide a better picture of the workforce distribution by length of service, the number of ranges denoting length of service has been increased. 45% of the workforce has worked for the Group for less than five years, and more than 26% has worked for the Group for more than 15 years.

ABSENTEEISM RATE AT 31 MARCH 2013

Regions	31 March 2013	31 March 2012
France	2.0%	2.2%
Europe (excl. France)	3.1%	3.1%
Americas	0.9%	0.7%
Asia-Pacific	1.1%	1.1%
TOTAL	**1.9%**	**1.8%**

In most countries, absenteeism at the sites is below the national average for comparable industries. Overall, the Group's rate is 1.9% (number of hours of absence/theoretical number of working hours).

TURNOVER RATE AT 31 MARCH 2013

Region	Turnover
France	9%
Europe (excl. France)	15%
Americas	13%
Asia-Pacific	15%
GROUP TOTAL	**13%**

Calculation of the turnover rate has been redefined as being the average of the number of employees that left and the number of employees recruited divided by the number of employees present at the beginning of financial year.

The Group's turnover rate during the 2012/2013 financial year is 13%.

NUMBER OF NEW HIRES PER GEOGRAPHIC REGION AND CATEGORY OF STAFF DURING THE YEAR

Region	Managers	Employees	Operatives	Total
France	62	38	45	145
Europe (excl. France)	14	136	135	285
Americas	4	28	66	98
Asia-Pacific	31	148	40	219
TOTAL	**111**	**350**	**286**	**747**

NUMBER OF DEPARTURES BY GEOGRAPHIC REGION AND REASON FOR DEPARTURE DURING THE YEAR

Region	Resignation	Redundancy	Retirement	Total
France	34	24	27	85
Europe (excl. France)	71	173	38	282
Americas	77	20	12	109
Asia-Pacific	169	8	53	230
TOTAL	**351**	**225**	**130**	**706**

9.1.2 DEVELOPMENT OF EMPLOYEE EXPERTISE

This process is based on the dynamics of mobility and exchange of experiences. The more skills are transferred and good practices exchanged among the various entities in the world, the greater the level of the Group's expertise.

Bolstered by this conviction, Faiveley Transport encourages the development of technical and project teams, working as closely as possible with their customers. Technical knowledge acquired by the Faiveley Transport staff, based at the four corners of the world, enables them to support their customers better and respond to their needs.

It is with this in mind that several resident engineer positions have been created, based close to the facilities of the Group's main customers.

The Group seeks to retain its human capital, that of its engineers as well as all employees, to provide a better response to the overriding requirements of reliability, safety and extended life of its equipment.

It is for this reason that the Group encourages internal mobility, both on a professional and geographic basis. This can provide a solution to the need to adapt employment levels as well as to integrate the aspirations of the employees.

Internal mobility also provides employees with career opportunities that encourage their professional development by the acquisition of new skills and qualifications.

In order to promote this internal mobility, a section has been created on the Group's intranet portal where everyone can preview the positions open at all sites around the world. It is only thereafter that job offers are advertised externally.

Similarly, since 2009, in conjunction with all local Human Resources executives, the Group has been committed to improving the tools and practices implemented and ensuring that a common Group standard is used.

For instance, a common policy was implemented for holding annual performance review interviews; a common performance review form for all entities was prepared in consultation with local Human Resources officers.

At the same time, training was provided on how to conduct these interviews in order to support managers in this process.

This thought process continued *via* the creation of a Group-wide induction booklet. This document is intended to provide every new hire with a comprehensive overview of the Faiveley Transport Group, as well as all practical local information necessary to their integration. This is also a means of strengthening the sense of belonging to Faiveley Transport.

In 2012, a Group ethics charter was introduced and distributed to all the subsidiaries. The purpose of this charter is to detail the ethical commitments and responsibilities in respect of the Company's business and activities. It details the values to which all Faiveley Group executives and employees must adhere and which they are committed to uphold.

The general tenets of the ethics charter are as follows:

- respecting laws and regulations: apart from the laws specific to each country, this obligation also includes respecting domestic and international competition rules;
- environmental compatibility: The Group is committed to assuring the quality and features of its manufacturing techniques and processes;
- models and rules of conduct: the behaviour and relationships of all persons working for the Group must be guided by transparency, impartiality and mutual respect.

During the financial year, a new Human Resources Information System (HRIS) module relating to annual performance reviews was approved. It is currently in the project phase, with a pilot scheme rollout planned from April 2013. This module will make it possible to automate annual interview programmes throughout the Group and in the longer term to automate skills forecast management (GPEC).

In this constantly changing economic environment for Group companies, maintaining and developing employees' expertise is an essential feature of the continuing improvement in the Group's overall performance.

Professional training constitutes in this respect a major area of the Human Resources policy. The HRIS tool will automatically collect information relating to the training needs expressed during reviews.

During the year, the training programmes concerned all positions. In addition to increasing awareness of safety measures and quality standards, the largest part of the training budget continued to be dedicated to updating technical skills.

There is also a strong need for Group employees to improve their proficiency in English.

The training policy is entirely adapted to the local level in line with the issues encountered at each site. The Group aims to ensure the uniformity of training across the sites.

The objectives of the training indicators are to monitor the training budget of each entity, the percentage of trained employees and managers and the nature of training organised.

PERCENTAGE OF GROSS PAYROLL DEDICATED TO TRAINING*

Region	2012/2013	2011/2012
France	0.86%	2.16%
Europe (excl. France)	0.96%	1.48%
Americas	1.37%	1.51%
Asia-Pacific	1.31%	1.35%
GROUP TOTAL	**0.94%**	**1.63%**

** Only teaching costs are included.*

NUMBER OF TRAINING HOURS BY CATEGORY OF PERSONNEL, PER YEAR

	Executives	Employees	Operatives	Total
France	192	95	153	440
Europe (excl. France)	105	724	529	1,358
Americas	12	79	319	410
Asia/Pacific	138	494	298	930
TOTAL	**447**	**1,392**	**1,299**	**3,138**

57% of Faiveley Transport Group employees received training during the 2012/2013 financial year.

9.1.3 ORGANISATION OF THE WORKING WEEK

In France, the reduction and structure of the working week effective within Group companies are subject to the applicable laws and collective agreements. The steps taken to reduce working hours means overtime levels are low.

In the rest of the world, the structure of the working week and the management of overtime are governed by the law in each country.

9.1.4 REMUNERATION POLICY

Efforts undertaken to control payroll costs were continued, while retaining the principle of individualised remuneration, based on results and performance.

Generally speaking, the financial resources available for wage and salary increases within the Group are negotiated annually with personnel representatives for all staff.

The remuneration policy for staff is as follows:

- individual increase depending on the results and performance of each employee;
- a variable annual bonus, which is given to executives and managers depending on Group and individual objectives, in all Group companies.

Management's objective is to maintain an increase in salaries throughout Group companies.

Recognition of employee benefits

Employee benefits, mainly comprising pension commitments, are recorded in the consolidated financial statements in accordance with IFRS. These amounted to €30.6 million at 31 March 2013, compared to €32.8 million at 31 March 2012.

Profit-sharing schemes

Faiveley Transport has set up a Group savings scheme, which is common to all French sites.

Since June 2011, all French subsidiaries adhere to a new employee savings plan, which includes a Group savings plan (PEG) and a Group joint retirement savings schemes (PERCO). A Group Committee meets once a year in France to monitor employee savings plans.

Profit-sharing agreements

All French subsidiaries have implemented profit-sharing and bonus agreements.

Welfare benefit plans

In France, the Group has established standardised guarantees for all the personnel of the Group's companies, regardless of the category of staff they belong to.

Employee shareholding policy

Faiveley Transport has set up a long-term motivation plan for employees. The objective is to enable certain employees to become shareholders in the Company and drive performance improvement. Faiveley Transport's employee shareholding policy is implemented through various plans which are detailed below.

SHARE OPTION PLAN AUTHORISED BY THE GENERAL MEETING OF 27 SEPTEMBER 2005

Faiveley Transport has implemented a share option plan approved by the General Meeting of 27 September 2005. The Company's Management Board allocated shares under this plan in ten instances between 2005 and 2008 for the benefit of 62 beneficiaries.

Options can be exercised from the second anniversary of their date of allocation by the Management Board, subject to the beneficiary being employed by the Faiveley Transport Group on the day they are exercised and their acceptance of the option regulations. It should be noted that 259,044 options have been exercised to date. At 31 March 2013, 56,996 shares awarded to 10 beneficiaries remained to be exercised.

SHARE SUBSCRIPTION PLAN AUTHORISED BY THE GENERAL MEETING OF 22 SEPTEMBER 2009

A share subscription plan was approved by the Annual General Meeting of 22 September 2009. The Management Board allocated 144,000 options giving the right to subscribe for new shares in the Company to be issued through a share capital increase, at a price of €54.91 for each new share. At 31 March 2013, 123,000 shares remained to be exercised.

PLAN FOR THE ALLOCATION OF FREE PERFORMANCE-BASED SHARES AUTHORISED BY THE GENERAL MEETING OF 13 SEPTEMBER 2010

The Combined General Meeting of 13 September 2010 authorised the Management Board to proceed with the allocation of free ordinary shares of the Company. The Management Board allocated 69,700 free shares to 43 beneficiaries. After a period of two years, the beneficiaries were allocated 27,650 free shares, in line with the partial achievement of performance criteria established by the Remuneration Committee. Beneficiaries are required to comply with a mandatory retention period of two years from the date of final vesting.

FREE SHARE ALLOCATION PLAN AUTHORISED BY THE COMBINED GENERAL MEETINGS OF 14 SEPTEMBER 2011 AND 14 SEPTEMBER 2012

The Combined General Meeting of 14 September 2011 and 14 September 2012 authorised the Management Board to allocate free ordinary shares of the Company within the limit of 1% of the share capital.

The Management Board decided to implement an employee shareholding plan aimed at a broader population of executives, including a free share allocation plan (Executive Shareholding Programme). The plan, designed to increase the loyalty and motivation of key Group executives, brings the personal interest of employees in line with Group performance and requires a personal effort from each beneficiary that is commensurate to their rank within the organisation.

Therefore, each beneficiary has the option to invest in Company shares to be granted two free shares for each share already held under the Executive Shareholding Programme. Final vesting of the shares will take place at the end of a period of two or four years following the allocation date, with a stipulation that the beneficiaries must retain these shares for a further period of two years after the vesting date.

At its meeting held on 5 March 2012, the Management Board allocated 79,224 shares to 151 beneficiaries. At its meeting held on 15 January 2013, the Management Board allocated 72,386 shares to 179 beneficiaries.

FREE PERFORMANCE-BASED SHARE ALLOCATION PLAN AUTHORISED BY THE COMBINED GENERAL MEETING OF 14 SEPTEMBER 2012

At its meeting held on 24 October 2012, the Management Board used the authorisation granted by the Combined General Meeting of 14 September 2012 and granted 10,000 free shares subject to performance conditions to one beneficiary.

The main features of share option purchase plans, share subscription and free share allocation plans are detailed in the consolidated financial statements (Note E.11 – Equity).

9.2 WORK-RELATED ACCIDENTS, HEALTH AND SAFETY CONDITIONS AND ARDUOUS NATURE OF WORK

The prevention of health and safety risks is a priority for the Faiveley Transport Group.

The various risks encountered in its business and the steps taken to deal with them are described in Chapter "1.1.5.4. Industrial and environmental risks – § Health and safety risks" of the Management Report.

The Health and Safety Committees established in France meet quarterly. During these meetings, critical situations are discussed and priorities defined. The cost of any required action is also reviewed and the results of such steps are analysed.

Not only does the Group hold these meetings in accordance with applicable local legislation, it also ensures that staff have an updated brochure containing information on health and safety measures within the Company and on acceptable staff behaviour. Fire drills are conducted on a regular basis.

In addition to the steps implemented by the Health and Safety Committees, progress groups are continuing to work within the various companies of the Group, focusing on risk prevention and implementing the safety training policy.

All subsidiaries in France have carried out an analysis to determine the percentage of employees exposed to arduous working conditions, in order to put into place the necessary actions to reduce exposure to this risk.

Faiveley Transport considers that the improvement of working conditions contributes to the Group's sustainability and development. The prevention of occupational risks is based on both ethical and legal obligations. It is strategic to ensure the attractiveness of metalwork as an occupation and the necessary extension of the working life of employees.

The occurrence of work-related accidents is monitored, analysed and communicated on a monthly basis, through a number of indicators. Encouraging results in terms of employee safety were recorded as a result of total commitment by the Group's senior management.

	France	Europe (excl. France)	Americas	Asia-Pacific	Total 2012/2013	Total 2011/2012
Number of accidents with work stoppage	20	36	2	11	69	62
Number of accidents with stoppage >10 days	11	14	1	6	32	-
Number of days of stoppage due to work accidents	970	848	8	461	2,287	1,706
Number of accidents with no stoppage	9	84	13	19	125	148

9.3 ANTI-DISCRIMINATORY POLICY

9.3.1 GENDER EQUALITY AT WORK

Faiveley Transport is committed to promoting a level playing field of equality between men and women in their career development access to training, salaries and in their position within the business.

All subsidiaries in France have implemented an action plan aimed at ensuring gender equality in the workplace, either through collective agreements or as a result of a unilateral decision.

9.3.2 EMPLOYMENT AND INTEGRATION OF DISABLED WORKERS

All Group companies, whose local laws provide for the employment of a certain percentage of disabled employees, make it one of their priorities.

Some of these subsidiaries employ a higher number of disabled workers than required by law.

The Human Resources Department recognises that this is a very important issue and has decided since 2010 to ask its staff to think about how to best approach this topic within the Company.

			Legal obligation to employ disabled workers			
Sites	Annual legal obligation = BU* equivalent	Obligation met	Disabled people employed	BU* equivalent	Use of sheltered workshops	BU* equivalent
Faiveley Transport	4	0.83	No	-	Yes	0.83
Faiveley Transport NSF	7	2.12	Yes	2	Yes	0.12
Faiveley Transport Amiens	20	23.16	Yes	12.58	Yes	10
Faiveley Transport Tours	44	29.82	Yes	18.62	Yes	11.2
Faiveley Transport Gennevilliers	5	7	Yes	7	No	-

* *Beneficiary Units.*

9.3.3 AGREEMENT REGARDING OLDER WORKERS.

All the Group's subsidiaries in France have signed agreements in favour of employing older workers. These agreements will require adapting in 2013 to comply with the new "generational contract" measure.

9.4 LABOUR RELATIONS

9.4.1 COLLECTIVE AGREEMENTS

The French companies of the Faiveley Transport Group are all subject to the national collective agreement in the metal industry.

9.4.2 PERSONNEL REPRESENTATIVES

Most subsidiaries of the Group have personnel representatives.

The Group has a European Works Council that meets twice a year, as well as a Group Committee in France that meets once a year.

The Group convenes the meetings at a different site each time. The objective is to enable the representatives of these Committees to make the most of these events and visit other industrial sites and thus discover other practices and cultures.

9.4.3 INTERNAL COMMUNICATION – OBJECTIVE: STRENGTHENING A COMMON CULTURE

Respect for cultures and standardisation of processes

Given the growing internationalisation of the Group, the position adopted was to respect the diversity of each country and to allow local customers the possibility of retaining a local contact.

Every site therefore retained its identity, while respecting common values, which are: quest for performance and results, stimulation of creativity and sharing of experiences.

The exchange of best practices between sites and the standardisation of processes is fundamental to a pragmatic approach that enables all employees to have a clear understanding of their action plan and expected results.

To achieve this, Faiveley Transport also uses the development of the industrial excellence system based on the "Lean manufacturing" method. This method consists of seeking industrial performance, by permanent and continuous improvement and the elimination of waste. It is based on two principal concepts: just-in-time and autonomation. The just-in-time tools are the production with continuous and driven flows, the rapid change of tools and the integration of logistics. The autonomation tools include tools to automatically stop production, the methods of elimination of causes of errors and the analysis of problems.

The QRQC and TOP5 programmes encourage staff members to exchange ideas and develop action plans for improvement. The objective of this type of initiative is to offer solutions to the operational problems identified.

The QRQC method (Quick Response Quality Control) enables rapid solutions to be put in place for quality issues. The involvement of the personnel in the resolution of quality issues facilitates relations between Departments and accelerates the resolution of issues.

In the principal sites, the working day now starts with a 15-minute meeting on site. This is an opportunity to discuss problems encountered at their workstation and to propose ideas for improvement that may be rewarded on certain sites. This daily meeting enables them also to have a complete view of their results as well as the objectives to be achieved during the day.

Resources allocated

Faiveley Transport continues to roll out its various internal communication tools to improve dialogue, promote communication amongst employees and to distribute Group information.

Within the Group, information circulates both from the bottom-up and the top-down within the organisation, *via* various communication tools, including:

- an intranet portal accessible to all Group subsidiaries;
- an internal Group newsletter (printed in four languages, including Chinese);
- an intranet network for each entity;
- a monthly information letter within certain companies;
- organisation of exchange meetings at operating company-level;
- organisation of annual business seminars (HR seminar, Finance seminar, Engineering seminar, etc.);
- organisation of annual meetings between the various Group managers;
- regular one-to-one meetings organised between employees and their immediate supervisor.

10. CORPORATE RESPONSIBILITY

10.1 LOCAL, ECONOMIC AND SOCIAL IMPACT

Most of Faiveley Transport's production sites have been established for many years in the same region and are well accepted by the local population. The Group aims to recruit its teams locally and is often recognised as a major employer in the areas in which it operates.

The Faiveley Transport Group companies are also involved with local industrial and economic development where they are members of professional associations and take part in research studies with local schools and universities and sometimes partnerships with local training organisations.

The Faiveley Transport Group is also actively involved with local communities throughout the world, supporting several initiatives. The Group supports a Senegalese association which has already built a library and is currently building a school. The Group has also supported a Cambodian project for the past 10 years, which has resulted in the opening of a school especially for deaf-mute and blind children and students. The Group supports its daily activities. Another initiative in India finances the studies of students suffering from great poverty. When they complete their Engineering studies, these young people can take up a position with one of the Group's local factories.

Faiveley Transport has also taken part in initiatives to support minority groups, such as those with disabilities or the sick, in several countries. Through its career management policy, Faiveley Transport promotes dialogue between communities and respecting diversity is of great importance to the Group.

10.2 INTEGRATION OF ENVIRONMENTAL ISSUES INTO SUPPLIER RELATIONS

The Faiveley Transport Group aims to establish long-term relationships with its suppliers. For the Group, it is not a matter of seeking suppliers but rather partners in order to establish a relationship which brings about mutual, long-term benefits.

It is the Group's responsibility to see that all rules and best practices concerning the protection of people and the environment are implemented. Key factors in the choice of suppliers are respect for socially responsible work standards to exclude all forms of discrimination and prohibit the recruitment of minors, as well as to prevent any favouritism.

The following policies have been implemented in the past two years:

- The "10 Commitments" Charter for better relationships between Faiveley Transport and its suppliers:

  On 28 June 2010, Faiveley Transport signed the French Charter proposed by the French government to improve relationships between large and small to medium-sized companies.

  The companies which signed the Charter confirmed that they are committed to implementing best practices and fulfilling their responsibilities in an environment of mutual trust with suppliers, based on full knowledge and respect for the rights and obligations of each party.

  The "10 Commitments" Charter for responsible purchasing addresses the following:

1. Ensuring financial equity in relation to suppliers.
2. Promoting collaboration between major customers and strategic suppliers.
3. Reducing the risk of mutual dependence between customers and suppliers.
4. Involving major customers in the management of their industry.
5. Assessing the full cost of the purchase.
6. Incorporating environmental issues.
7. Ensuring local responsibility for its company.
8. Purchasing: one function and one process.
9. A Purchasing function responsible for overall management of supplier relationships.
10. Set a consistent buyers' remuneration policy.

- Commitment and training of purchasing teams:

  Likewise, all members of the Faiveley Transport purchasing team have signed the "Purchasing Charter" which defines and reminds the team of the basic values and the behaviour which all Group employees must adopt.

- Contractual agreements with suppliers:

  The new "Faiveley Transport – supplier agreement" comprises clear rules which provide for immediate termination of the supplier relationship where ethical and moral regulations are not complied with.

- Assessment of suppliers:

  Audits of Faiveley Transport suppliers contain a full chapter on environmental best practices, as well as on health and safety at work.

  The Group's suppliers must not engage in practices which could put their employers, their customers, the Company or the environment in danger. As such, no supplier may be classed as a Faiveley Transport Group supplier unless a supplier audit has been completed.

  Thus, external sub-contracting for the 2012/2013 financial year for the whole Group totalled €43 million compared to €37 million last year.

CONCLUSION*

The debate surrounding carbon footprints and greenhouse gas reduction is currently working in the rail sector's favour. More than ever, rail is the best way of linking all cities, not only on a European scale, but on other continents too. Railway rolling stock is the answer to pollution and congestion problems in cities. It is therefore an enormous challenge that is opening up for Faiveley Transport, but there are also new opportunities.

To work with these new trends, the Group must be ever more innovative. It is no longer a question of thinking about quality and price, but about adding new components – sustainable development, energy efficiency and making its products recyclable. As well as being a necessity, this diversification of its offering is an opportunity to add value to its activities.

In their operation, the sites are careful in their use of resources so as to maintain or even reduce their costs. A sustainable development approach is entirely consistent with reducing operating costs through better management of resources. Investing in energy efficiency in buildings, rethinking logistics, investing in human resources by giving them the means to undertake and follow through actions can only benefit the Company and civil society.

Being a leading employer in the regions in which it is located, contributing to economic development at a local level, ensuring the quality of working life for its employees, supporting equal treatment in professional careers, shaping tools to encourage good behaviour, and creating and designing reliable and safe equipment are as much day-to-day measures as they are objectives for Faiveley Transport.

** The decree establishing the mechanisms for control by an independent third party of social and environmental information was published in the Official Journal on 14 June, 2013, Faiveley Transport has not been able to achieve this control for the financial year ended 31 March 2013. This verification will be implemented for the financial year commencing 1 April, 2013.*

CORPORATE GOVERNANCE


FAIVELEY
TRANSPORT

11. REPORT BY THE CHAIRMAN OF THE **SUPERVISORY BOARD**

On the operation of the Supervisory Board and on internal control within Faiveley Transport

Dear Shareholders,

Pursuant to the provisions of Article L. 225-68 of the Commercial Code, I hereby inform you by the present report:

- of the conditions for the preparation and organisation of the work of your Supervisory Board during the financial year ended 31 March 2013;
- the principles and rules agreed by the Board to determine the remuneration and benefits of all kind granted to senior executives;
- of the internal control and risk management procedures implemented by the Company;
- other information required by Article L. 225-68 of the Commercial Code.

The current report was discussed and approved by the Supervisory Board at its meeting of 31 May 2013.

11.1 PREPARATION AND ORGANISATION OF THE SUPERVISORY BOARD'S WORK

11.1.1 OPERATION OF THE BOARD

The Supervisory Board continuously ensures, by all appropriate means, control over the Company's management by the Management Board. The Supervisory Board is kept up-to-date by the Management Board on a regular basis through quarterly reports on the businesses and operations of the Company and its subsidiaries.

As part of its legal duties throughout the year, the Supervisory Board carries out the verifications and checks that it considers appropriate and may request documentation it considers useful to the completion of its duties. The Management Board presents an operating report to the Supervisory Board at last once per quarter.

The Supervisory Board appoints the members of the Management Board and sets their remuneration. It can also dismiss them in accordance with the bylaws. It appoints the Chairman of the Management Board and can also appoint the Chief Executive(s).

The Supervisory Board checks and monitors the half-year and full-year parent company and consolidated financial statements prepared by the Management Board.

At the Ordinary General Meeting, it presents a report containing its observations on the Management Board's report as well as on the financial statements for the year.

The Supervisory Board approves and monitors the execution of the medium and long-term strategy presented by the Chairman of the Management Board. It monitors the quality of information provided to shareholders as well as the markets, *via* the financial statements or when major transactions are effected.

In addition to the provisions of the bylaws, prior approval by the Supervisory Board is required for all significant transactions in respect of the scope of the Company's business (acquisitions, disposals, internal restructuring) or outside the approved strategy of the business. It is regularly informed of the financial position, the cash position and the commitments of the Company.

The Chairman calls the Supervisory Board as often as required in the interests of the Company and at least once per quarter following the release of the periodic report by the Management Board.

The Supervisory Board's deliberations are not valid unless at least half its members are present and decisions are made by a majority of members. In the event of a tie, the Chairman has the deciding vote.

At any one meeting, Directors may hold no more than one proxy received from a Director who could not attend.

In order to conform to the AFEP-MEDEF Corporate Governance Code for listed companies of December 2008, the Supervisory Board added to the agenda of its meeting on 22 April 2010 a revision to its internal regulations providing and specifying:

- its powers;
- its operating rules;
- the terms and conditions of meetings and the organisation and preparation of the work of the Board;
- the information required by members of the Supervisory Board in carrying out their duties.

Following the recommendation of the AMF of 3 November 2010 on the prevention of insider trading violations by management, at its meeting on 24 February 2011, the Supervisory Board decided to clearly define the trading restriction periods during which management and permanent insiders are prohibited from effecting transactions on the Company's securities. The Supervisory Board also amended its internal regulations and brought the Company's Code of Conduct into compliance at the same meeting. The Supervisory Board's internal regulations are available on the Company's website. A calendar of restriction periods is updated and forwarded to all members of the Supervisory Board, the Management Board and permanent insiders of the Company at the beginning of each financial year.

Moreover, at the meeting held on 24 March 2011, the Supervisory Board reviewed the provisions of the Law of 27 January 2011 concerning the fair representation of women and men on Boards of Directors and Supervisory Boards and decided to comply with the requirements of this regulation. Hélène Auriol-Potier and Nicoletta Giadrossi-Morel were appointed members of the Supervisory Board by the General Meeting of 14 September 2011 and may be deemed independent in accordance with criteria set by the Charter adopted by the Supervisory Board on the matter.

In light of their legal assignments, each member of the Supervisory Board is bound by the basic obligations of loyalty, confidentiality and due diligence.

The Board adopted a Charter for members of the Supervisory Board that defines the criteria adopted to qualify as an Independent Director, as well as the obligations of members of the Supervisory Board. This Charter is also available at the registered office of the Company.

It specifically states that at least two of the members of the Supervisory Board must meet the qualification of Independent Director.

Aside from the required expertise and experience, a member of the Supervisory Board is deemed independent where he/she has no direct or indirect relationship, of whatever nature, with the Company, its group or its management that may compromise the exercise of freedom of judgment and their completely objective participation in the work of the Supervisory Board.

To be considered an Independent Director, a member of the Supervisory Board must satisfy the following criteria:

- they must not be or have been an employee or executive of the Company or an employee or Director of a company that has been consolidated during the past five years;
- must not be a senior executive of a company where the Company, directly or indirectly, holds a position as Director or has an employee appointed as such, or where a senior executive of the Company holds, or has held in the last five years, the position of Director;
- must not be a customer, supplier, commercial partner, merchant banker or financing banker:
  - that is of significance to the Company or its group,
  - or where the Company or its group represent a significant part of the activities;
- must not be directly or indirectly related, nor have been directly or indirectly related during the last five years, to such a customer, supplier, commercial partner, merchant banker or investment banker;
- must not have any close family relationship with a senior executive of the Company;
- must not have been an auditor to the business during the previous five years;
- must not have been a member of the Supervisory Board for more than twelve years;
- must not hold, directly or indirectly, a shareholding equal to or greater than 10% in the share capital or voting rights of the Company or in any one of the companies of its Group, nor be related in any way whatsoever to a shareholder holding more than 10% of the capital or the voting rights of the Company or a company of its Group.

Every year, at the meeting to consider the financial statements of the year just ended, the Supervisory Board examines the position of each of its members on a case by case basis with regard to the criteria of this clause, and brings the conclusions of its examination to the attention of the shareholders in its annual report so that the Independent Directors are identified. Thus, the members of the Supervisory Board deemed to be independent are:

- Hélène Auriol-Potier;
- Christian Germa;
- Nicoletta Giadrossi-Morel;
- Maurice Marchand-Tonel.

Christian Germa was a Director of Faiveley Transport before all the assets and liabilities of this company were transferred to Faiveley SA (subsequently renamed Faiveley Transport). Following discussions within the Supervisory Board, Christian Germa has been deemed an "independent member". The Supervisory Board noted that he exercises his professional activities in a field that is wholly unrelated to the railway industry, that he is neither related nor connected in a private capacity with the principal shareholder, and that he is not a key shareholder of the Company.

Finally, beyond the sole statutory requirements, internal regulations require that each member of the Supervisory Board be a significant shareholder in a personal capacity. It was decided that each member of the Supervisory Board should acquire at least two hundred (200) Company shares. Board members have a period of twelve months after assuming their position to ensure they comply.

The Supervisory Board also conducts an annual assessment of its operation and its work. At the meeting of 29 March 2013, a summary of this assessment, whose findings were generally positive, was discussed and the Board adopted the following proposals:

- the next assessment of the Board to be carried out by an external and independent specialist firm;
- creation of a Governance and Appointments Committee to deal with all aspects of the Group's governance, including in particular appointments to the Supervisory Board, the roles and responsibilities of the various decision-making bodies, and the interaction between shareholders, the Supervisory Board and the Management Board;
- the abolition of the Steering Committee to be replaced by a monthly financial report addressed to all members of the Supervisory Board by the Chief Financial Officer;
- the frequency of Supervisory Board meetings will be reduced but their duration will be extended, it being understood that certain meetings will be held in the absence of Management Board members;
- the Chairman of the Supervisory Board will meet each member annually in order to draw up the list of topics requiring attention.

11.1.2 FREQUENCY OF MEETINGS

During the last financial year, the Supervisory Board met eight times:

- 25 April 2012;
- 6 June 2012;
- 19 July 2012;
- 14 September 2012;
- 24 October 2012;
- 21 November 2012;
- 29 January 2013;
- 29 March 2013.

The following was presented and discussed by the Board at those meetings:

- the key financial elements of the year as well as the press releases published by the Company;
- the minutes of the various Committees;
- the reports and draft resolutions to be presented to the General Meeting;
- external growth opportunities;
- the organisation of Group Operations.

11.1.3 CONVENING OF THE SUPERVISORY BOARD MEMBERS

In accordance with Article 20-III of the bylaws, the advance notice required for formal meetings of the members of the Supervisory Board is four days.

Each member has the option of being represented by another member at Board meetings.

The meetings are chaired by the Chairman of the Supervisory Board, or in his absence, by the Vice-Chairman.

11.1.4 INFORMATION OF SUPERVISORY BOARD MEMBERS

Before a meeting, each member receives Group financial information and a file detailing the items included on the agenda for the meeting.

11.1.5 DIRECTORS' FEES

Details are provided in the management report of the Management Board.

11.1.6 LOCATION OF THE MEETINGS

In general, meetings of the Supervisory Board take place at the registered office, however, occasionally, certain meetings are held in other locations, in particular, within Group subsidiaries so that Supervisory Board members may improve their knowledge of operations and products, as well as of teams working locally.

11.1.7 MINUTES OF THE MEETINGS

Minutes of Supervisory Board meetings are drafted at the end of each meeting and are immediately forwarded to all Board members.

11.1.8 SUMMARY OF 2012/2013 ACTIVITY

During the year ended 31 March 2013, the Board met eight times. The attendance rate of Board members was 87.50%. Seven meetings were chaired by Philippe Alfroid, Chairman of the Supervisory Board, and one by François Faiveley, Vice-Chairman of the Supervisory Board.

During the financial year, all Management Board members attended meetings and presented items on the agenda within their respective areas of expertise to the Supervisory Board.

The Group's Legal Counsel attended all Board meetings and acted as secretary to the meetings.

Pursuant to Article L. 225-238 of the Commercial Code, the Statutory Auditors were invited to the Board meetings at which the interim and year-end financial statements were presented and approved.

11.1.9 RULES GOVERNING DIRECTORS' REMUNERATION AND OTHER BENEFITS

Remuneration of executives, as detailed in the Management Board's report, is determined by the Remuneration Committee and the Supervisory Board. All the information required under Article L. 225-102-1 of the Commercial Code is presented in the Management Board's report.

The setting and granting of Directors' fees is decided at a meeting between the Chairman and the Vice-Chairman of the Supervisory Board, who specifically take account of the following criteria:

- Board meeting attendance;
- work carried out as part of the various Committees;
- time devoted;
- personal expertise and contributions to the Board's deliberations.

The functioning of the Supervisory Board is then assessed by the Chairman and the Vice-Chairman. The frequency of meetings, the members' contribution to work carried out, work methods, governance rules and the composition of the Board are reviewed carefully in order to propose the improvements deemed necessary.

Directors' fees totalling €249,000 were allocated in respect of the financial year ending 31 March 2012.

In its decision dated 28 November 2008, the Supervisory Board adopted the principles of the AFEP-MEDEF Corporate Governance Code. This Code includes:

- the October 2003 Corporate Governance Code for listed companies, updated in April 2010;
- the October 2008 recommendations on Directors' remuneration.

The Supervisory Board has reservations concerning the rule against concurrently holding a term of office and an employment contract: it favours suspending employment contracts of senior executives at the time of their appointments as Chairman and Chief Executive Officer or as Chief Executive Officer, where their length of service in the business is at least ten years at the time of their appointment.

Upon the appointment of Thierry Barel as Chairman of the Management Board, his contract of employment was terminated. Changes made upon the termination of Thierry Barel's contract of employment have been discussed by the Supervisory Board which granted its prior approval in accordance with Articles L. 225-86 and L. 225-90-1 of the Commercial Code. The Supervisory Board has also defined the terms and conditions for the termination of Thierry Barel's duties as Chairman of the Management Board. Thus, should he be dismissed by the Supervisory Board, Mr Barel may avail of compensation based on performance criteria, up to a maximum amount of 18 months of total remuneration.

Only Thierry Barel is remunerated in his capacity as Chairman of the Management Board, the other members of the Management Board may not receive specific remuneration for their role as member of the Management Board. In addition, the members of the Management Board who are also managing directors of Group companies do not receive any specific benefits for their roles.

The Management Board meeting of 29 December 2005 approved the terms of its internal regulations, by which all members are individually bound. The internal regulations specify the powers and duties of the Management Board and the procedures governing meetings and decision-making. A copy of the internal regulations is available at the registered office of the Company.

With regards to third parties and according to the bylaws, only the Chairman of the Management Board may represent the Company, unless decided otherwise by the Supervisory Board. Thierry Barel is the sole Chief Executive Officer and has no specific limits on his powers.

Management Board members were reappointed for a three-year term during a meeting of the Supervisory Board on 9 June 2011. The Management Board is currently made up of three people.

The Supervisory Board is responsible, based on recommendations of the Remuneration Committee, for defining the share purchase and subscription option policy, as well as the policy governing the allocation of free shares to Directors and Executive Officers, in close collaboration with the Group's Human Resources Department. This policy is then implemented by the Management Board, which acts strictly within the bounds of the delegation granted to it by the Shareholders' General Meeting. A report summarising the conditions of use of this delegation is prepared by the Supervisory Board and presented to the Annual General Meeting.

11.2 INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

The Company has developed internal control and risk management procedures to ensure rigorous financial management and the control of risks associated with its business activities. The procedures are also aimed at ensuring that reliable information is provided regarding the Company's financial situation and in the financial statements provided to shareholders.

Internal control is an integral part of the Group's corporate governance strategy. In addition to periodic Audit Committee meetings, Faiveley Transport Management and the majority of Supervisory Board meet at a Steering Committee every month in order to thoroughly and consistently monitor the operational and financial performance of the railway business, to supplement the specialised Committees referred to hereafter.

11.2.1 GROUP STANDARDS AND OBJECTIVES FOR INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

The internal control standard adopted by the Company is that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). According to this standard, internal control is a process which aims to provide reasonable assurance that the following objectives are met: the realisation and optimisation of transactions, reliability of financial information and compliance with the law and regulations in force.

The objectives of the internal control procedures within the Faiveley Transport Group cover the five key internal control procedures defined by COSO:

1) **Organisation and principles of control:**

   To establish an organisation with clearly defined responsibilities, adequate resources and expertise, which relies on appropriate IT systems, operating procedures and methods, and appropriate tools and practices;

2) **Risk assessment procedures:**

   To compile and analyse major identifiable risks in light of the Company's objectives (market, industrial and environmental risks) and to ensure that procedures are implemented to manage these risks;

3) **Actual control procedures:**

- To ensure that the information forwarded to the Supervisory Board of Faiveley Transport and to General Meetings is reliable and is a true reflection of the Company's business;
- To ensure that published financial statements and other information disclosed to the market is reliable;
- To ensure that the operations carried out within the Company comply with current legislation and regulations in force and with the objectives laid down by the Management Board;

   To define and communicate standards of control and performance;

4) **Documentation and communication of the rules of control:**

   To ensure adequate internal distribution of relevant and reliable information, enabling each participant to fulfil his/her responsibilities;

5) **Supervision of the internal control system:**

   To ensure, through on-site audits, that the appropriate organisation, procedures and standards of control and performance are in place.

As regards internal control, the Company uses the general principles defined by the AMF.

11.2.2 INTERNAL CONTROL PROCEDURES AND RISK MANAGEMENT

The Group has established a structure, procedures and processes with the purpose of identifying, evaluating and reducing risks, with the resources necessary to manage risks being allocated in line with the strategic and operational objectives of the Group. As with all systems of internal control, it can offer reasonable assurance but cannot provide an absolute guarantee that these risks will be completely eliminated.

11.2.2.1 Organisation and procedures

The Group's control environment is based on:

1) a clear internal **organisation** appropriate to the Group's business model, supported by information systems adapted to this organisation.

   Moreover, in its control functions, the Supervisory Board now follows the principles set down by the new Corporate Governance Code for listed companies, published by AFEP-MEDEF in December 2008 and updated in April 2010;

2) The **"Corporate" manual** contains the Group's operating procedures and guidelines and is accessible on the Group's intranet *via* a dedicated site called "Core procedures". Its main components focus on:

- management organisation, and the roles and responsibilities of their major duties,
- key performance indicators,
- key processes: "management reviews" and "projects reviews",
- sales-related procedures,
- financial procedures,
- quality management,
- health, safety and environmental procedures;,
- human resource procedures.

   More particularly, emphasis should be placed on:

- "Financial and Accounting Policies", a Group standardised benchmark document, covering accounting standards, accounting rules and practices, consolidation, reporting and cash management procedures,
- the "Site Internal Control Manual" forwarded to subsidiaries in February 2013 contains the 164 mandatory checks covering all operating procedures.

3) **Other Group procedures:**

- the "Quality" collection of guidelines detailing certain operating processes common to the entire Group,
- the "Faiveley Management System" (FMS) brings together the performance standards to be implemented by the subsidiaries and audited on a regular basis by employees independent of the subsidiary ("FMS correspondents"),
- the "Insurance" manual, redrafted after all Group policies for civil liability and damages were placed with the same broker,
- all the procedures and rules implemented by the majority of Group subsidiaries as part of ISO certification. These rules relate to the management of production and purchasing.

11.2.2.2 Risk management tools

Since 2006, the Company has been using a reporting and consolidation tool integrated into Hyperion. This provides an improved overview of subsidiary performance and shorter timeframes for the reporting of figures.

In 2007, the Group started to work on the standardisation and the gradual updating of all its technical and IT architecture. Standard IT tools (ERP) have been rolled out in operational units, which will contribute to the structuring of internal controls.

A CRM (Customer Relationship Management) tool to improve the sharing of data when preparing proposals, whilst ensuring their compliance with Group procedures before being forwarded to customers, was in the final phase of development at 31 March 2013.

The Group has set up a number key performance and financial indicators to enable monitoring in a common language within the Group. These indicators are employed as targets for operational managers and are integrated into the management of remunerations. They reflect the strategic overviews decided by the Management Board and are incorporated into the budgeting process and monthly reviews carried out by legal entity with the involvement of the Executive Committee.

11.2.3 INTERNAL CONTROL STAKEHOLDERS

During the year ending 31 March 2013, the various internal control stakeholders operated as follows:

The Supervisory Board

The Supervisory Board meets on a regular basis to assess operational and financial performance, to discuss business matters and the strategic direction of the Group in its various businesses and in different markets, and each year, to approve the annual budget.

The Remuneration Committee

The Remuneration Committee is chaired by the Chairman of the Supervisory Board, Philippe Alfroid. François Faiveley and Christopher Spencer are also members.

It meets at least twice annually and is responsible for making recommendations regarding the remuneration of Management Board members, in particular regarding the remuneration of corporate officers; its task is to evaluate and confirm the allocation of the variable part of the remuneration of the Chairman of the Management Board of Faiveley Transport, based on individual performance objectives and on financial statements audited by the Statutory Auditors.

The Audit and Risk Committee

The Audit and Risk Committee has four members: Christian Germa (Chairman), Maurice Marchand-Tonel, Philippe Alfroid and Christopher Spencer. Serge Choumaker, a member of the Supervisory Board representing employee shareholders, is also involved due to his role as the Group's Director of Accounting & Consolidation.

The operating principles of the Audit and Risk Committee are consistent with the findings of the Audit Committee's final report, published by the AMF in July 2010. Its specific task is to examine the interim and annual financial statements and the internal control procedures of Faiveley Transport Group.

In order to carry out this assignment, the Audit and Risk Committee interviews the Statutory Auditors, the Chief Financial Officer of the Group and the Director of Internal Control and Audit, it examines the scope of the consolidated companies, it consults external experts where necessary and proceeds with an examination of risks and of significant off-balance sheet commitments.

In addition, it examines the Statutory Auditors' fees and the terms and conditions of their reappointment. It reviews the internal audit plan and the key observations from the internal audit. It is also involved in the preparation of the Group's financial communication of the half-year and full-year financial statements and significant transactions (acquisitions, disposals, etc.).

The Audit and Risk Committee meets to approve the interim and year-end financial statements. It issues recommendations and prepares a report for the Supervisory Board of Faiveley Transport.

The Management Board of Faiveley Transport

The Management Board is responsible for the organisation and the implementation of accounting and financial internal controls, as well as the preparation of the financial statements prior to their approval.

The Management Board approves the financial statements and the Supervisory Board carries out the verification and checks what that it deems necessary on the financial statements.

The Executive Committee

It comprises the Chairman of the Management Board, Operations Director, Chief Financial Officer and the heads of the operational and corporate divisions. It meets once a month and covers any topics related to the running of the Company and its operation and non-members of the Committee may be invited to discuss matters within their area of responsibility.

The Finance Department

The accounting and finance function is managed by the Finance Department for the parent company, subsidiaries and each establishment.

This Department is responsible for:

- providing the Management Board, at any time, with the relevant documents and indicators to manage the Company's operations;
- continuously anticipating and contributing to the preparation of action plans, their implementation and their monitoring with the Management Board of the Company;
- ensuring the reliability of the information provided by the Company's accounting and financial information system. The financial statements are prepared in accordance with the IFRS framework applicable to listed companies and with the rules set out by Faiveley Transport relating to the preparation of half-yearly and annual financial statements of the parent company and subsidiaries.

Its role regarding internal control particularly consists of:

- financial controlling: monitoring the budgeting control processes;
- accounting and consolidation: monitoring the quality and reliability of subsidiaries' financial statements and of the consolidated financial statements;
- treasury: reliability of cash generation, delegation of authority, and management of exchange rate and interest rate risk;
- Legal Department: management of contractual and insurance risks;
- Tax Department: management of fiscal risks and reliability of tax related financial information.

Financial controlling is undertaken by a team of controllers at the head office and in each subsidiary. The Finance Department organises periodic reviews of subsidiaries to monitor industrial activities and business projects. Every month it issues a report for the Management Board and operational and cross-divisional Departments.

Internal Control and Audit Committee

A Director of Internal Control and Audit was appointed in October 2012. He reports directly to the Group's Chief Financial Officer and has special access to the Management Board and to the Audit and Risk Committee.

The Group's standard controls were reviewed and included in a "Site Internal Control Manual" which was presented to the Audit and Risk Committee and distributed in February 2013. All subsidiaries will be trained to these standards and shall draw up an implementation programme following a self-assessment. At 31 March 2013, approximately one third of the main subsidiaries had completed this training.

An internal audit programme was defined for the year 2013/2014: it provides for reviews of the implementation of standard controls on the largest sites or those considered to be at risk, and may be updated based on new situations or Executive Committee requests. All the reports drafted during these audits will be forwarded to the members of the Audit Committee and to the Group Chief Executive Officer. A team of around ten "associated auditors" selected from experienced Group personnel was created in order to support the Director of Internal Control and Audit in his assignments.

The Quality Department

A Quality Director reporting to the Operations Director was appointed in November 2012. He oversees the Quality Departments within each industrial subsidiary and works with the senior management of each facility and subsidiary. A structured documentary framework, containing process descriptions as well as quality procedures, is in place. Standard problem solving processes were rolled out and monitoring of the quality system takes the form of quality audits conducted internally or through IRIS.

Subsidiary Departments Heads' Committee

Chaired on a monthly basis by the Managing Director of each industrial subsidiary, this Committee highlights performance indicators and reviews solutions with a view to their possible improvement.

11.2.4 MONITORING OF SUBSIDIARIES

Faiveley Transport has a majority or joint shareholding in each of its subsidiaries. Therefore, it has a strong presence on the Management Board and within the managerial structure of each of its subsidiaries.

Every subsidiary provides a monthly management report to the parent company, which then decides on any appropriate action to be taken based on the information received.

In 2012/2013, the monthly monitoring of the performance of subsidiaries, overseen by the Activity Directors, was introduced. It enables better reporting of information and closer monitoring ahead of Activity and Executive Committee meetings.

11.2.5 THIRD-PARTY RELATIONSHIPS

Supervision is carried out by independent certification agencies. The majority of the companies within the Group have ISO 9001-2000 certification and the Group quality management system is regularly audited by an external agency.

At 31 March 2013, sixteen Group entities, including the Group's main industrial sites were subject to ISO 14001 certification relating to environmental safety management systems.

The auditors are PricewaterhouseCoopers Audit and Expertise Comptable et Audit (ECA). As part of their audit of annual and consolidated financial statements of the Company, the auditors are required to make recommendations regarding internal controls related to accounting and financial information. In accordance with their professional standards, the Statutory Auditors inform the Audit and Risk Committee and the Management Board of their appraisal of the Group's internal control mechanisms. Corrective action is undertaken, on a subsidiary-by-subsidiary basis, on the relevant elements. Since the 2011/2012 financial year, at the request of the Finance Department, the Statutory Auditors have, as part of their internal control brief, been reviewing a cross-group process common to all the Group's subsidiaries. In this regard, the Statutory Auditors reviewed the project review process during the 2011/12 financial year and the inventory management process during the 2012/13 financial year.

11.2.6 SHAREHOLDERS INFORMATION

All information on specific terms and conditions relating to shareholders' participation in General Meetings is included in the Company's bylaws, in particular under Title V, Articles 26 and subsequent.

Please also note that items likely to have an impact in the event of a public offering, pursuant to Article L. 225-100-3 of the Commercial Code, appear in Chapter 6 of the Company's Reference Document.

11.2.7 ACTION PLAN FOR THE FORTHCOMING FINANCIAL YEAR

The Internal Audit and Control Department will complete the training of the subsidiaries on the standard controls contained in the Manual in February 2013. Internal audits will be conducted on a regular basis to ensure the implementation of these controls or to analyse a specific situation at the request of Management.

As part of the annual closing at 31 March 2014, the auditors will conduct further reviews of internal controls in order to ensure that corrective actions taken as a result of their recommendations have been implemented.

The Company project "Faiveley Worldwide Excellence" will be officially launched by the Management Board in May 2013. This project, which in three years aims to improve the Group's performance, particularly in relation to quality, customer delivery and managing margins, also incorporates the introduction of standard internal controls and Group IT tools, thus confirming the commitment of Faiveley Transport's Management to Internal Control.

Chairman of the Supervisory Board

12. STATUTORY **AUDITORS' REPORT**

prepared in accordance with Article L. 225-35 of the French Commercial Code, on the report prepared by the Chairman of the Supervisory Board of Faiveley Transport For the year ended 31 March 2013

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.»

To the Shareholders,

In our capacity as Statutory Auditors of Faiveley Transport and in accordance with Article L. 225-235 of the French Commercial Code (Code de commerce), we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-68 of the French Commercial Code for the year ended 31 March 2013.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by Article L. 225-68 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and
- to attest that the report sets out the other information required by article L. 225-68 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

I. INFORMATION CONCERNING THE INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Supervisory Board report, prepared in accordance with Article L. 225-68 of the French Commercial Code.

II. OTHER INFORMATION

We attest that the Chairman of the Supervisory Board's report sets out the other information required by Article L. 225-68 of the French Commercial Code.

Neuilly-sur-Seine and Dijon, le 12 July 2013.

The Statutory Auditors

PRICEWATERHOUSECOOPERS AUDIT	EXPERTISE COMPTABLE ET AUDIT
Philippe Vincent	Jérôme Burrier

13. DIRECTORS' **REMUNERATION**

TABLE SUMMARISING THE REMUNERATION AND OPTIONS AND SHARES GRANTED TO EACH MANAGEMENT BOARD MEMBER

	FY 2011/2012	FY 2012/2013
Thierry Barel: Chairman of the Management Board and CEO		
Remuneration for the financial year	609,629	693,687
Value of free shares granted during the financial year	116,640	54,208
Value of performance-based shares granted during the financial year	-	-
TOTAL	**726,269**	**747,895**
Erwan Faiveley*: Member of the Management Board		
Remuneration for the financial year	132,200	126,350
Value of free shares granted during the financial year	-	-
Value of performance-based shares granted during the financial year	-	-
TOTAL	**132,200**	**126,350**
Guillaume Bouhours: Member of the Management Board		
Remuneration for the financial year	351,339	354,463
Value of free shares granted during the financial year	46,656	35,482
Value of performance-based shares granted during the financial year	-	-
TOTAL	**397,995**	**389,945**

** Erwan Faiveley is an employee of FFP, holding company of the Faiveley family.*

SUMMARY TABLE OF THE REMUNERATION OF EACH MANAGEMENT BOARD MEMBER

	FY 2011/2012		FY 2012/2013	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Thierry Barel,				
Chairman of the Management Board and CEO				
Fixed remuneration (gross before tax)	432,794	432,794	430,822	430,822
Variable remuneration(1) (gross before tax)	174,140	381,300	260,170	174,140
Benefits in kind (company car)	2,695	2,695	2,695	2,695
TOTAL	**609,629**	**816,789**	**693,687**	**607,657**
Erwan Faiveley(2),				
Member of the Management Board				
Fixed remuneration (gross before tax)	96,000	96,000	107,081	107,081
Variable remuneration (gross before tax)	-	-	-	-
Benefits in kind (housing allowance)	36,200	36,200	19,269	19,269
TOTAL	**132,200**	**132,200**	**126,350**	**126,350**
Guillaume Bouhours,				
Member of the Management Board				
Fixed remuneration (gross before tax)	214,173	214,173	218,959	218,959
Variable remuneration(1) (gross before tax)	134,586	160,833	132,924	134,586
Benefits in kind (company car)	2,580	2,580	2,580	2,580
TOTAL	**351,339**	**377,586**	**354,463**	**356,125**

(1) The variable part is measured in relation to both Group (profit from recurring operations and cash flow generation) and individual objectives, which are set out at the beginning of the year. A decision on the final vesting of the variable part of remuneration based on individual objectives (bonus) is reached following individual interviews and, as regards Group objectives, based on the audited financial statements. These recommendations are subsequently debated within the Remuneration Committee. The Chairman of the Remuneration Committee then presents a summary to the Supervisory Board.

(2) Erwan Faiveley is an employee of FFP, holding company of the Faiveley Family.

DIRECTORS' FEES AND OTHER REMUNERATION RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD

Members of the Supervisory Board	Amounts paid during the 2011/2012 financial year	Amounts paid during the 2012/2013 financial year
Philippe Alfroid		
Directors' fees	45,200	46,500
Other remuneration	-	-
François Faiveley		
Directors' fees	19,200	30,500
Other remuneration	-	-
Didier Alix		
Directors' fees	15,200	21,000
Other remuneration	-	-
Hélène Auriol-Potier		
Directors' fees	-	19,000
Other remuneration	-	-
Serge Choumaker		
Directors' fees	-	-
Other remuneration	-	-
Christian Germa		
Directors' fees	22,800	37,000
Other remuneration	-	-
Nicoletta Giadrossi-Morel		
Directors' fees	-	19,000
Other remuneration	-	-
Robert Joyeux		
Directors' fees	-	19,000
Other remuneration	-	-
Maurice Marchand-Tonel		
Directors' fees	16,400	25,500
Other remuneration	-	-
Christopher Spencer		
Directors' fees	17,600	31,500
Other remuneration	-	-
TOTAL	**138,400**	**249,000**

	Employment contract		Supplementary pension plan		Compensation or benefits due or likely to be due as a result of termination or change of role		Non-competition compensation	
	Yes	No	Yes	No	Yes	No	Yes	No
Thierry Barel Chairman of the Management Board Start term of office: 01/04/2011		x(1)		x	x(3)			x
Erwan Faiveley Member of the Management Board Start term of office: 27/09/2005	x(2)			x		x		x
Guillaume Bouhours Member of the Management Board Start term of office: 01/04/2011	x			x		x		x

(1) Thierry Barel's work contract expired on 1 April 2011, date of his appointment as Chairman of the Management Board and Chief Executive Officer of the Company.
(2) Erwan Faiveley is an employee of FFP, holding company of the Faiveley family.
(3) Following the appointment of Thierry Barel as Chairman of the Management Board and Chief Executive Officer on 1 April 2011, the terms and conditions governing the termination of his duties have been defined. Thierry Barel will thus be entitled to compensation based on performance criteria, not exceeding eighteen months of total gross remuneration, in the event of his dismissal by the Supervisory Board.

INFORMATION ON FREE SHARES ALLOCATED TO MANAGEMENT BOARD MEMBERS DURING THE YEAR

Name of Management Board members	Number and date of plan	Value of options, based on the method used in the consolidated financial statements	Number of free shares granted during the period	Vesting date	Date shares available
Thierry Barel	15/01/2013	24.64	2,200	15/01/2015	15/01/2017
Erwan Faiveley	Nil	Nil	Nil	Nil	Nil
Guillaume Bouhours	15/01/2013	24.64	1,440	15/01/2015	15/01/2017

HISTORY OF ALLOCATIONS OF SHARE SUBSCRIPTION OPTIONS AND FREE SHARES AT 31 MARCH 2013

	INFORMATION ON SUBSCRIPTION OPTIONS	INFORMATION ON FREE SHARES		
Date of AGM	22/09/2009	13/09/2010	14/09/2011	14/09/2012
Date of Management Board	23/11/2009	03/12/2010	05/03/2012	15/01/2013
Total number of shares or rights to shares granted	144,000	64,500	79,224	72,386
Of which Board members:				
• Thierry BAREL	40,000	5,000	4,000	2,200
• Serge CHOUMAKER	5,500	800	800	720
• Guillaume BOUHOURS	-	10,000	1,600	1,440
Free shares vested after partial achievement of performance criteria:				
• Thierry BAREL	-	2,500	-	-
• Serge CHOUMAKER	-	400	-	-
• Guillaume BOUHOURS	-	5,000	-	-
Date from which options can be exercised or vesting date of free shares	23/11/2013	03/12/2012	05/03/2014	15/01/2015
Date of sale of options or free shares	23/11/2013	03/12/2014	05/03/2016	15/01/2017
Expiry date	23/11/2017	N/A	N/A	N/A
Exercise price*	€54,91	N/A	N/A	N/A

** The exercise price is equal to 95% of the average twenty trading days preceding the date of the Management Board meeting at which the options were granted.*

OPTIONS TO SUBSCRIBE FOR OR PURCHASE SHARES GRANTED TO THE TOP 10 EMPLOYEES NON MEMBERS OF THE BOARDS HOLDING THE HIGHEST NUMBER OF OPTIONS AND OPTIONS EXERCISED BY THESE AT 31 MARCH 2013

	Total number of options granted/ shares purchased	Weighted Average price	24/11/2005	29/12/2005	22/06/2006	25/10/2006	15/11/2006	01/12/2006	02/04/2007	19/02/2008	29/03/2008	16/07/2008	23/11/2009
Options granted by the issuer and all companies in the scope of the option plans, to the 10 employees holding the highest number of options	285,980	38.03	67,200	6,720	31,360	6,720	4,480	11,200	26,880	26,880	13,440	22,600	68,500
Options held on the issuer and all companies included in the scope of the option plans and exercised by the 10 employees having purchased the highest number of options	20,039	28.70	14,594	-	239	-	-	126	-	360	4,720	-	-

OTHER INFORMATION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Faiveley

14. CERTIFICATE OF PERSONS RESPONSIBLE FOR THE ANNUAL REPORT

"We confirm that, to our knowledge, the financial statements have been prepared pursuant to the applicable accounting standards and provide a true and fair view of the assets, financial position and profit of Faiveley Transport and all the companies included in the consolidation scope, and that the management report provides a fair presentation of the business trend, the results and the financial position of Faiveley Transport and all the companies included in the consolidation scope, as well as a description of the principal risks and uncertainties they face."

Thierry Barel
Chairman of the Management Board
Chief Executive Officer

Guillaume Bouhours
Member of the Management Board
Chief Financial Officer

15. STATUTORY AUDITORS' **FEES**

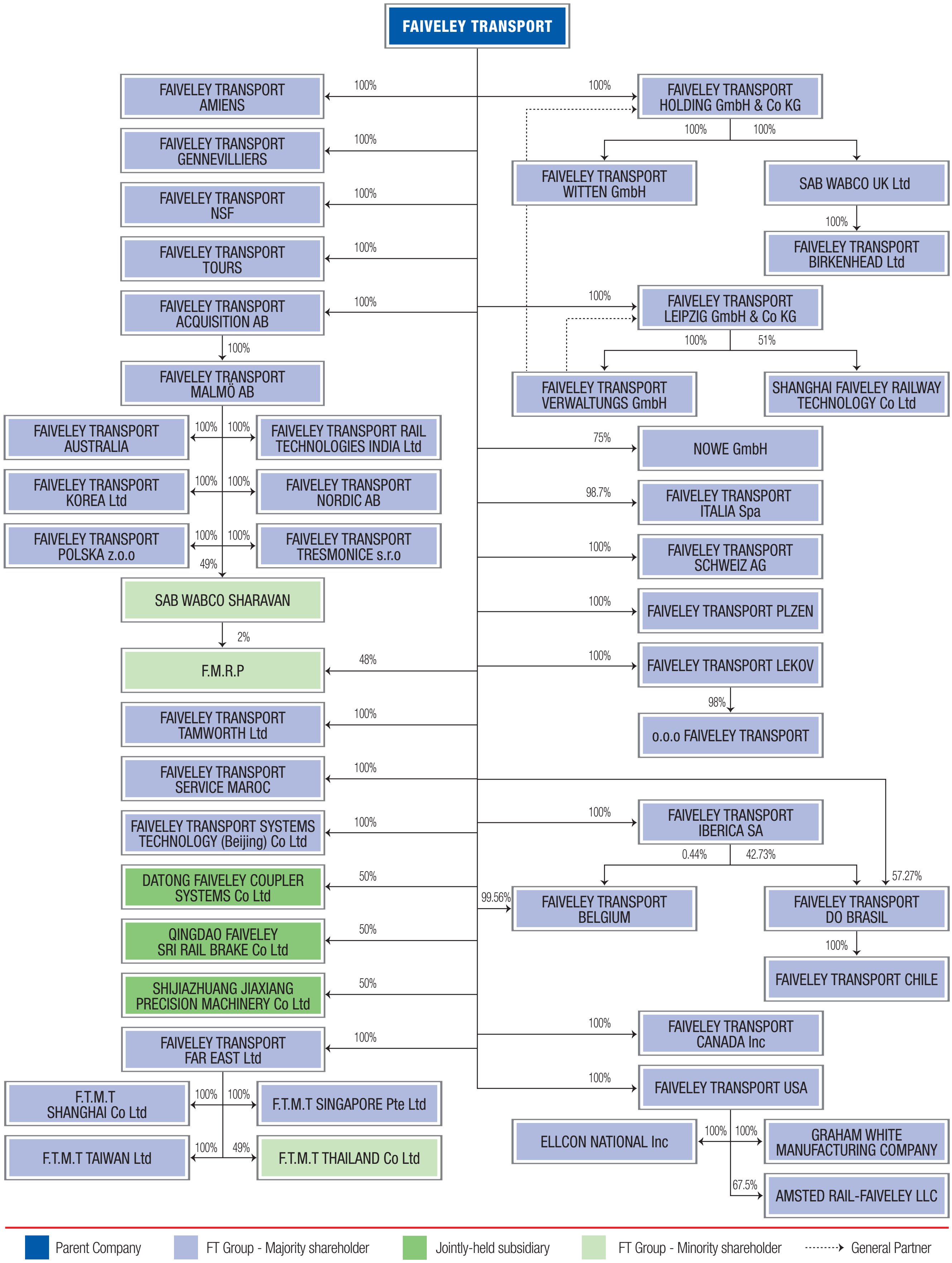
Article 222-8 of the General Regulations of the AMF (Autorité des Marchés Financiers)

Fees payable to the Statutory Auditors and members of their network within the framework of assignments relating to the closing of accounts at 31 March 2013 and 31 March 2012 were as follows:

	ECA		PWC	
	2012/2013	2011/2012	2012/2013	2011/2012
Audit:				
Statutory Auditors, certification, review of individual and consolidated financial statements:				
• Parent company	161	150	210	200
• Subsidiaries	109	113	692	553
Other services directly related to the audit assignment	2	2	2	-
SUB-TOTAL AUDIT FEES	**272**	**265**	**904**	**753**
Other services:				
Legal, tax, corporate	-	-	16	-
Other	-	-	29	-
SUB-TOTAL OTHER SERVICES	**-**	**-**	**45**	**-**
TOTAL	**272**	**265**	**949**	**753**

16. ORGANISATION CHART

FAIVELEY TRANSPORT GROUP SIMPLIFIED LEGAL STRUCTURE AT 1 APRIL 2013



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2012/2013 FINANCIAL REPORT

Faiveley TRANSPORT

CODE OF ETHICS

FAIVELEY TRANSPORT

CONTENTS

FOREWORD

THE COMPANY AND THE GROUP

This Code (hereinafter referred to as the “Code of Ethics”) states the commitments and ethical responsibilities in the conduct of business and company activities by the staff members of Faiveley Transport, (hereinafter referred to as the “Company”), as a Company of the Faiveley Group, whether employees, directors or any kind of Company co-workers.
The achievement of the Faiveley Transport objectives is pursued by all the Company staff members with loyalty, seriousness, honesty, skills and transparency, in the absolute compliance with the laws and regulations in force.

RELATIONSHIPS WITH STAKEHOLDERS

The presence of the Faiveley Group in national and international markets, its effectiveness in various contexts and the multiplicity of its partners and counterparties make the relationships of Faiveley Transport. with the Faiveley Group and the stakeholders extremely important, the stakeholders being all public and private parties, individuals, groups, companies, institutions, which have contacts of any kind with Faiveley Transport. and/or have any interest in the activities of the Company. Faiveley Transport conduct of business is strictly compliant with the French laws and with the market rules and principles on which fair competition is based.

KEY PRINCIPLES

Compliance with the pertinent laws, transparency and proper management, trust and cooperation with stakeholder are the ethical principles followed by Faiveley Transport and from which it draws inspiration for its model of conduct, to compete effectively and fairly in the market, to improve customer satisfaction, to give added value to its shareholders, to develop the competence and the professional growth of its human resources. In particular, the belief of acting to the Company’s advantage does not justify the adoption of a conduct contrary to these principles. All those who work for Faiveley Transport, without any distinctions and exceptions, are therefore committed to observe these principles and to have them observed within the scope of their own functions and responsibilities. Hence, the commitment-related need for all parties having business relationships with Faiveley Transport to act towards the Company following rules and policies based on the same values.

CODE OF ETHICS

Faiveley Transport. deemed it appropriate and necessary to adopt and issue a Code of Ethics which states the values to which all its directors, employees and co-workers of any kind shall conform, by accepting responsibilities, structures, roles and rules for whose violation, even if it does not imply any third party liability of the Company, they are personally liable within and outside the Company. Knowledge and observance of the Code of Ethics by all those who work for Faiveley Transport are therefore the main conditions for preserving the transparency and reputation of the Company. Furthermore, the Code is distributed to all those who have any business relationships with Faiveley Transport.
Supervision of the enforcement of the Code of Ethics and of its implementation is the task of the directors and employees of Faiveley Transport who shall report any non-compliance or failure to perform to the Company Management or to the special body called ”Supervision Body on the Code of Ethics”, if established.
The Management Board and the Company Management can promote proposals to integrate or modify the Code of Ethics. It is also the task of the Management Board to modify, integrate and update the Code of Ethics to adjust it as required to meet the relevant laws and the evolving civil awareness. As regards, in particular, the offences provided for in the L.D. 231/01 and amendments thereof, a Supervision Body has been established to verify the operation and the effectiveness of the Organisation and Management Model adopted by Faiveley Transport for the prevention of the aforesaid offences.

GENERAL PRINCIPLES

COMPLIANCE WITH LAWS AND REGULATIONS

Faiveley Transport operates in full observance of the laws and regulations in force in the Countries where it carries out its activity, in accordance with the principles established in the Code of Ethics and the procedures provided for in internal memoranda. The moral uprightness is a firm duty of all those who work for Faiveley Transport and characterizes the conduct of its organization.
The directors and employees of Faiveley Transport as well as those who work for the Company, at any title, are therefore required to be familiar with and observe the laws and regulations in force in the Countries where the Company is present. This obligation also includes the attention towards and the respect of the rules which regulate the competition both in the domestic and international markets.
Relationships between the Authorities and the people working for Faiveley Transport shall be characterized by their extreme fairness, transparency and collaboration, in the full observance of all applicable laws and regulations, and respectful of their institutional roles.

ENVIRONMENTAL COMPATIBILITY

The goods and services supplied by Faiveley Transport are produced and provided in compliance with the state of the art in its own activity sector and with the rules, laws and regulations in force as for quality, work, protection of workers' safety and health, as well as for the protection of the environment.
Faiveley Transport is committed to guarantee the adequate quality and characteristics of its manufacturing means and processes, which shall comply with the technical innovations and be aimed in particular at improving the quality and characteristics of the supplied goods and/or services.

MODELS AND RULES OF CONDUCT

All the working activities of those who work for Faiveley Transport shall be performed with professional care, honesty and managerial fairness, in the best interests of the Company.
The conduct and the relationships of all those who work, at any level, for Faiveley Transport, inside or outside the Company, shall be inspired by transparency, fairness and mutual respect. In such a context, the Managers shall be the first to represent, through their conduct, an example to everyone in Faiveley Transport, by complying, in the performance of their duties, with the principles of the Code of Ethics and with the Company's procedures and rules; they must also circulate them among the employees and encourage them to submit inquiries about them or proposals for updating them where necessary.
Furthermore, Faiveley Transport requests Directors to do their best to propose and execute the projects, the investments and the industrial, commercial and managerial actions deemed useful for preserving and increasing the economic, technological and professional assets of the Company.
Faiveley Transport further guarantees the availability of supporting information to enable the Company's roles and bodies, the auditing bodies and the internal control bodies, as well as surveillance authorities, to carry out the widest and most effective control activity.

DISSEMINATION AND OBSERVANCE OF THE CODE OF ETHICS

Faiveley Transport promotes the knowledge and observance of the Code of Ethics, of internal memoranda and of their updated versions among all directors, employees, co-workers of any kind, commercial and financial partners, consultants, customers and suppliers, requiring them to respect it and providing, in case of non compliance, for adequate disciplinary actions or contractual penalties. The aforesaid subjects shall therefore become familiar with the contents of the Code of Ethics, by asking questions and receiving explanations from company compliance officers as to their interpretation, to observe the Code and to help implement the same, by reporting any omissions or breaches (or even attempted breaches) that they have learnt about.

Faiveley Transport also promotes and encourages the collaboration of the employees in enforcing the observation, knowledge and implementation of the Code of Ethics and the internal memoranda, each employee within the scope of his/her competence and duties.

HUMAN RESOURCES AND EMPLOYMENT POLICY

PRINCIPAL CONDITIONS

Human resources are a fundamental component for the existence of the Company and a crucial factor for its successful competition on the market. Honesty, fairness, competence, professionalism, integrity, technical skills and commitment of the personnel are therefore the principal conditions for the attainment of the Company objectives and are the requisites Faiveley Transport requires of its directors, employees and co-workers of any kind.

SELECTION POLICIES

In order to contribute to achieving the development objectives of the Company and to assure that the said objectives have been pursued by everybody in accordance with the ethical principles and values which inspire Faiveley Transport, the company policy aims at selecting each employee, consultant, collaborator of any type on the basis of the aforesaid values and characteristics. During selection, which is conducted without any discrimination with regard to the applicant's private life and opinions, Faiveley Transport shall see that hired human resources correspond to the positions effectively needed in the Company, avoiding favouritism and any kind of facilitation.

PROFESSIONAL DEVELOPMENT

In the development of the employer-employee relationship, Faiveley Transport is committed to providing and maintaining the conditions required for enabling further improvement of the skills and knowledge of each employee in accordance with the said values, by following a policy based on recognition of merits and equal opportunities, and by drawing up specific programmes aimed at follow-up training and acquisition of increased skills. For this reason, employees are required to cultivate and improve their skills and acquire new abilities and knowledge, while directors and members of the management team shall do their utmost to enhance and improve the professionalism of their collaborators by creating the conditions for developing their skills and potential.

HUMAN RESOURCES AND CODE OF ETHICS

Information and knowledge about the Code of Ethics are disseminated first of all through the circulation of special documentation to all those who interact with the Company which, in such a case, requires of them, upon delivery of the material on the Code of Ethics, to sign a statement that they have taken due note of the documentation received. All Company employees shall at any time have the right to seek guidance and explanation from their supervisors on the contents of the Code of Ethics. On the occasion of the creation of a new relationship regarding employment, consultancy or collaboration, Faiveley Transport shall promptly deliver the information required for providing adequate knowledge of the Code of Ethics.

WORKPLACE AND PRIVACY PROTECTION POLICY

Faiveley Transport is committed to providing workplaces guaranteeing to all those who interact with the Company conditions respectful of their personal dignity and such that the characteristics of the individuals can not lead to any form of discrimination. In this connection, in compliance with all applicable laws, Faiveley Transport is committed to protecting personal information on the private life and opinions of its employees and in general of all those who interact with the Company.
In particular, the respect for the dignity of each worker shall also be ensured through the protection of privacy in the correspondence and interpersonal relationships between employees.

REPRESENTING THE COMPANY

The reputation of Faiveley Transport depends on the conduct of each employee.

Each of us shall:

- act by taking into account the interests of Faiveley Transport.
- reflect the values of Faiveley Transport in our professional conduct.
- not talk or write in the name of Faiveley Transport without previous authorization.
- not talk or write on subjects out of our competence.
- pay attention not to create confusion between our personal opinions or interests and the Company's interests (e.g. do not use the headed paper or the e-mail address of Faiveley Transport for personal matters or when expressing personal opinions).

FINANCIAL AND PROFESSIONAL DOCUMENTS

We all shall make sure that the data reported in our financial documents or in other types of documents are correct. This is one of the key of success of all enterprises. It is essential for a fair, effective and lawful management of our activity. In particular, it is of the utmost importance to provide our shareholders with transparent, correct and reliable information.

Each of us shall:

- contribute to the correctness of the information reported in the financial and professional documents,
- keep these documents in a safe place and follow the archiving instructions,
- cooperate with the internal and external auditors,
- reject cash transactions. If there are no other options, these transactions shall be expressly authorized and correctly recorded and proven by documents,
- pay attention not to sell, transfer or hand over goods belonging to Faiveley Transport without the necessary authorizations and the associated documentation.

USE OF THE COMPANY'S GOODS

The Company's goods allow the employees to achieve the economic objectives of Faiveley Transport. The incorrect use or the waste of these resources, including the working time, damage the operational and financial performances of Faiveley Transport.

Each of us shall:

- generally avoid the personal use of the Company's resources. The personal use of the communication means such as e-mail, telephone, Internet and so forth can be tolerated provided that it is limited, does not involve unreasonable costs and does not damage our professional activity,
- preserve and protect the Company resources, do not lose, damage, waste, lend, transfer or hand them over without authorization.
- do not inappropriately use of information system, e-mail and Internet.

CONFIDENTIALITY

The unauthorized diffusion of confidential information can damage Faiveley Transport. You are responsible for assuring the confidentiality of the data you have. Information not intended for public release shall be kept strictly confidential. Those who can access confidential information on our commercial partners are obliged to protect it against its diffusion.

Each of us shall:

- restrict the diffusion of the confidential information only to those who have the legitimate need to know it in the interest of the Company,
- preserve in a safe place all confidential data on customers and suppliers, both on paper and on electronic support,
- do not diffuse confidential information to persons outside FAIVELEY Transport (including the members of the employees' families),
- do not discuss or work on confidential information in public places where the conversations could be overheard and the data security jeopardized,
- do not reveal confidential information relative to a previous employer,
- return all confidential information (including any copies) in case of severance from Faiveley Transport.

GIFTS AND INVITATIONS

The exchange of gifts or invitations can contribute to the mutual comprehension and improve the business relationships, but can also create conflicts between personal interests and professional commitments.

Should you receive gifts or invitations, the “golden rule” to be followed is the total transparency.

Should you offer gifts or invitations, the “golden rule” is to keep yourself within reasonable limits and to figure out how this gift could be perceived publicly.

Each of us shall:

- reject gifts or invitations by suppliers, unless they are unequivocally of symbolic value,
- reject to receive or offer money,
- pay attention that the gifts and invitations we offer are appropriate and compliant with the ethical values of Faiveley Transport,
- make sure that, when establishing a new business relationship, the parties are informed on the policy of Faiveley Transport regarding gifts and invitations. The same way, we shall enquire about the policy of our new partner thereon. This way, any misunderstanding should be avoided,
- immediately inform our hierarchy about any received gift or invitation.

CORRUPTION AND "FACILITATING PAYMENTS"

Corruption is unacceptable and incompatible with the "FAIVELEY Code of Ethics". It is not good for the community within which we work and is a cost for the Company. Bribes are a type of corruption and are illegal in most Countries, particularly when officials are involved. In some Countries also the "facilitating payments" are forbidden, i.e. the payments executed to accelerate certain administrative formalities such as permission demands or customs clearance. Most of them, in fact, are a form of corruption.

Each of us shall:

- never execute, propose or promise cash payments or services (including gifts and invitations) to officials, Government officials or persons capable to influence them,

- immediately inform the Area Manager or the Division Director if these payment could not be avoided and exhaustively prove by documents the payment request,

- the payment of commissions is accepted if it is documented as for any restitution of goods and services in the company and is auditable.

CONFLICT OF INTERESTS

We shall absolutely avoid any situation in which our personal interests could clash with those of Faiveley Transport.

The simple probability of conflict of interests occurrence could damage the reputation of Faiveley Transport and that of its employees.

As regards the potential conflict of interests, the “golden rule” is to openly declare it in order to allow an in depth analysis of the situation, which needs a complete knowledge of the facts. What at first sight could seem to be a difficulty could not be so for the Company.

Each of us shall:

- inform our hierarchy in case of potential conflict of interests which conveys or can convey the impression that it influences our judgement and actions (e.g. if a relative of ours works for a supplier),

- not occupy a workplace, a function or not have a financial interest within organizations of competitors, customers, suppliers or business partners of Faiveley Transport, if your functions at Faiveley Transport allow you to have influence on these relationships.

RESPONSIBILITY TOWARDS THE ENVIRONMENT

Faiveley Transport respects the environment and makes any efforts to minimize his ecological impact. We have the objective to openly communicate our implementations.

Many activities, which are necessary to the production of our products, can have a direct impact on the environment. Each of us is responsible for reducing this impact as much as possible.

Each of us shall:

- contribute to the environmental initiatives of Faiveley Transport,
- support the use of recyclable materials and the development of biodegradable packaging,
- reflect on what respect our conduct, in any activity area, has an impact on the environment, in order to minimize it whenever it is possible. We can, for example, reduce the number of unnecessary travels, save energy and water and avoid producing wastes. When these cannot be avoided, we shall do our best to recycle or dispose them in a responsible way,
- take the necessary measures to avoid any infringement to the environmental directives of Faiveley Transport and comply with the regulations in force,
- immediately notify any unusual discharges or emissions in the water or in the air to the direct hierarchic leader or to the person in charge of hygiene and safety.

ABUSE OF PRIVILEGED INFORMATION

Faiveley Transport does not intend to restrict the freedom of its employees to carry out the personal investments they deem right; nevertheless, the rules concerning the “abuse of privileged information” shall always be kept in mind.

Each of us shall:

- be conscious that the use of privileged information in personal investments could be punishable by the law regarding the abuses of privileged information,

- not purchase or sell shares of Faiveley Transport or other companies of which privileged information could be available at the time of the operation.

- avoid disclosing privileged information to anybody outside the Company, including our family members.

- avoid revealing this privileged information to anybody inside the Company, if not legitimately necessary.

- protect the privileged information in order to avoid its accidental disclosure.

PRODUCT SAFETY AND QUALITY

The safety and quality of our products have always been of the utmost importance.

The high performance, quality and safety of our products prove our commitment and respect towards the Customers, allowing us to win their confidence, to promote our good brand name and to guarantee the leadership of Faiveley Transport in his sector.

We are also committed to the marketing of products which have proven their effectiveness and reliability and which are guaranteed by having passed severe tests.

Each co-worker of Faiveley Transport throughout the world shall pursue the research for the total quality of our products, from its design to the distribution and also after its entry into service.

Those who are involved in developing, marketing, manufacturing and selling our products shall:

- comply with all laws and regulations regarding the development of our products,
- encourage the free and open dialogue on any subjects related to the innocuousness of our products, so that no aspect is disregarded,
- make sure that the strictest quality control rules are adopted throughout each step of the manufacturing process,
- make sure that all Customers' complaints are correctly notified to the pertaining services and duly processed,
- quickly react to any problem concerning the safety and reliability of our products and the quality controls.

SELECTION AND IMPARTIAL TREATMENT OF SUPPLIERS

The relationships of Faiveley Transport with its suppliers go beyond the simple purchasing of goods and services. They are essential for the long-term success of our Company. We control our selection criteria and the commitment of our suppliers to carry out their activity in a responsible way.

We are proud of the reputation of our Company, which frankly discusses with its suppliers in a fully cooperative way. Our relationships are based on impartiality, equity and fairness principles and we respect the independence and identity of our suppliers.

Each of us, who has relationships with a supplier, shall:

- encourage the selection of the suppliers on the basis of open and competitive enquiries; make sure that all offers are compared and taken into consideration impartially and without any favouritism,
- prove the transparency of the inquiry procedures and, for the not selected suppliers, notify them of the selection results with tact and honesty,
- make sure that the Purchase and Payment General Conditions of our Company, which are consistent with our expectations in terms of ethics, are well understood and observed by all our suppliers in any Country they operate,
- help our suppliers to meet the expectations of Faiveley Transport – interrupt a relationship with any supplier which repeatedly does not satisfy our expectations,
- pay our suppliers at the agreed times and conditions (as far as they have fulfilled their commitments),
- make sure that the economic dependence of our suppliers on Faiveley Transport is not excessive,
- not ask unreasonable concessions from the suppliers to obtain or to seek a contract with Faiveley Transport. In particular, avoid the mutual selling agreements (i.e. when a contract or the purchase of goods or services is subject to the purchase by the supplier of our goods or services),
- protect the information of our suppliers the same way as we protect our information and in particular respect their copyrights and intellectual property.

COMPETITION

We respect all actors in our professional sector, including our competitors. We treat them as we wish they treat us. Our duty to set our example in this sector is strengthened by our leadership in the market of railway systems.

It is our interest to work in a sector where the business practice enjoys a good reputation. This facilitates our task and strengthens the confidence of our Customers. The sharing with our competitors of information concerning rates, costs or marketing strategies could, be it right or wrong, give the impression that prices, territory divisions or other types of competition manipulation or distortion are negotiated.

Each of us shall:

- avoid any contact with our competitors on confidential matters,
- avoid encouraging our Customers or suppliers to cancel contracts they have with our competitors,
- avoid any intrigues aimed at depriving a competitor of a purchasing source,
- not sign exclusivity contracts (i.e. contract imposing a company to sell or purchase only to/from Faiveley Transport) before having consulted our law consultants on any risk of abuse of dominant position,
- not allow any "fidelity discounts" before having consulted our law consultants on any risk of abuse of dominant position,
- not denigrate our competitors (including false declarations on their products or services),
- immediately inform our hierarchy, if we have fortuitously received or used confidential or exclusive information on our competitors and of which the person involved or a third party is the legitimate owner,
- collect information on the competition only by legal means and, in this case, clearly identify ourselves as employees of Faiveley Transport,
- never authorize new employees, recruited by Faiveley Transport, to reveal confidential information on the competitors for which they could have worked in the past.

SUPERVISION BODY

COMPETENCES AND CHARACTERISTICS

The application of the Organisation and Management Model adopted by the Company is checked by the Supervision Body, which has autonomous powers of initiative and control.
The Supervision Body operates with fairness, authority, continuity, professionalism, autonomy and to these purposes it is free to access information sources of Faiveley Transport; it has the faculty to examine documents and data; it suggests any updating of the Code of Ethics, on the basis of employees communications; it can check, also periodically, the functioning and application of the Model; it has adequate human resources and materials who allow it to operate quickly and efficiently.
The Supervision body operates with high discretion and with the complete support of the top management of Faiveley Transport., with which it cooperates in the absolute independence.

NOTIFICATIONS TO THE SUPERVISION BODY

To guarantee the effectiveness of the Organisation Model through specific memoranda of Faiveley Transport – in the respect of privacy and individual rights – information channels are created through which those who are aware of any illicit conducts inside the Company can notify them freely, directly and confidentially to the Supervision Body. This Body has also the task to carefully check the transmitted notifications, in order to submit the related matters to the competent company function to take disciplinary measures or to operate contract cancellations.

VIOLATIONS OF THE CODE OF ETHICS – DISCIPLINARY SYSTEM

NOTIFICATIONS OF VIOLATIONS

With reference to the notification of an occurred, attempted or requested violation of the rules of the Code of Ethics, the Company shall guarantee that nobody within his/her working area can be subject to any retaliations, illicit conditioning, hardships and discriminations of any sort, to have notified the Supervision Body of the Code of Ethics of the violation of the latter. Further to any notification, the Company will carry out appropriate inspections and disciplinary measures.

GUIDELINES OF THE DISCIPLINARY SYSTEM

The violation of the principles specified in the Code of Ethics and in the procedures provided for in the internal memoranda jeopardizes the trust relationships between Faiveley Transport and its directors, employees, consultants, co-workers of any sort, customers, suppliers, business and financial partners.
These violations will then be pursued by the Company incisively and immediately through adequate and proportioned disciplinary measures, independently from any penal relevance of this conduct and from the institution of penal proceedings in case of offence.
To protect its image and safeguard its resources, the Company will not have any relationship with subjects which do not intend operate in compliance with the regulations in force and/or which refuse to comply with the values and principles of the Code of Ethics.

The MBTA specification currently requires that the primary suppliers of subsystems delineated in Tab 1.1 to have the following information included in a Bidder's Proposal. We request that you provide this information to us so that it can be incorporated into our submittal. As noted in our cover letter, we are requesting clarification from MBTA regarding the need for this material. We will advise you of their response, but we must currently proceed as if it will be required. We request your return of this information by January 31, 2014.

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.

2. Provide the names and telephone numbers of all business owners. shareholders if not a publicly held corporation. and/or members if a limited liability company.

3. Provide the names. title and telephone numbers of all officers.

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes. please describe relationship.

5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA. any other Massachusetts state agency or any federal agency? If yes. please describe the circumstances. Please indicate whether it resulted in a termination for cause.

6. Have any of the business owners. shareholders. or officers every been convicted of felony violations of Federal. state or local laws? If yes. please describe the circumstances.

7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes. please describe the circumstances.

8. Provide the name. address. account number. contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

9. Provide the name. address. contact person and telephone of three business credit references. including but not limited to your primary banking institution.

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?

11. Provide the last three (3) years of audited financial statements. or reasonable equivalent of the Offeror If the Offeror is a joint venture or other combination of business entities. provide the last three (3) years audited financial statements for each entity

12. Provide the business's current code of business ethics or equivalent.

13. Provide the responses to Questions Nos 1 through 12 for all proposed suppliers of major subsystems identified in response to Tab I.1 – Technical Approach.

1. **Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.**

FAAC Incorporated has had a status of Good Standing with the State of Massachusetts for many years, through 06-18-2012 Necessary paperwork after that date was not filed, but is currently in process We estimate this effort will be complete within 1 – 2 weeks

2. **Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and /or members if a limited liability company.**

FAAC Incorporated is a wholly owned subsidiary of Arotech Corporation, a publicly traded company with the NASDAQ symbol ARTX

3. **Provide the names, title and telephone numbers of all officers.**

Dean Krutty
President
(734)761 5836

Kurt Flosky
Executive Vice President
(734)761-5836

Tom Paup
Chief Financial Officer
(734)761-5836

4. **Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe the relationship.**

Yes, FAAC provided (2) MB-2000 transit Bus Operator Training Simulators in November, 2008 MBTA has consistently maintained their warranty program with FAAC for seamless support of their simulators and in support of their ongoing training program

5. **Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, or any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.**

No

6. **Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.**

No

7. **Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.**

No

8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

Cathy Stannis
Daly Merritt Insurance
cathy.stannis@dalymerritt.com
2950 S. State Street, Suite 130
Ann Arbor, MI 48104
(734) 282-2623

9. Provide the name, address , contact person and telephone of the three business credit references, including, but not limited to, your primary banking institution.

Banking Institution:
Tom Randall
Vice President
Corporate Banking
Fifth Third Bank
215 East Washington Ann Arbor, Michigan 48104
Telephone: 734.214.7910
Facsimile: 734.214.7952
Thomas,Randall@53.com

Roush Industries, Inc.
34300 W. Nine Mile Rd
Farmington Hills, MI 48335
Phone: (734) 779-7232
Fax: (734) 805-4464

Rave Computer Association
7171 Sterling Heights Court
Sterling Heights, MI 48312
Phone: (800) 966-7283
Fax: (586) 939-7431

Tierney Brothers, Inc.
3300 University Avenue S.E.
Minneapolis, MN 55414-3326
Phone: (800) 933-7337
Fax: (612) 331-3424

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?

No

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years of audited financial statements for each entity.

See attached Exhibit 1

12. Provide the business's current code of business ethics or equivalent.

See attached Exhibit 2

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

OMB APPROVAL	
OMB Number:	3235-0063
Expires:	April 30, 2015
Estimated average burden hours per response	1,998.78

FORM 10-K

¡ # ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED __DECEMBER 31, 2013__.

¸ # TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______ TO ______.

Commission File Number: 0-23336

AROTECH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-4302784**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1229 Oak Valley Drive, Ann Arbor, Michigan	**48108**
(Address of principal executive offices)	(Zip Code)

(800) 281-0356

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	The Nasdaq Stock Market LLC

Securities registered pursuant to section 12(g) of the Act: **Common Stock, $0.01 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** ¸ # **No** ¡

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes** ¸ # **No** ¡

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: **Yes** ¡ # **No** ¸

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** ¡ # **No** ¸

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¸

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer: ¸ Accelerated filer: ¸ Non-accelerated filer: ¸ Smaller reporting company: ¡

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). **Yes** ¸ # **No** ¡

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of June 28, 2013 was approximately $19,616,335 (based on the last sale price of such stock on such date as reported by The Nasdaq Global Market and assuming, for the purpose of this calculation only, that all of the registrant's directors and executive officers are affiliates).

(Applicable only to corporate registrants) Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: **20,165,408 as of 3/28/2014**

Documents incorporated by reference: **None**

SEC 1673 (01-12)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

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PRELIMINARY NOTE

This annual report contains historical information and forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our business, financial condition and results of operations. The words "estimate," "project," "intend," "expect" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Further, we operate in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond our control. In the context of the forward-looking information provided in this annual report and in other reports, please refer to the discussions of risk factors detailed in, as well as the other information contained in, our other filings with the Securities and Exchange Commission.

Electric Fuel® is a registered trademark and Arotech™ and SWIPES™ are trademarks of Arotech Corporation, formerly known as Electric Fuel Corporation. All company and product names mentioned may be trademarks or registered trademarks of their respective holders. Unless otherwise indicated, "we," "us," "our" and similar terms refer to Arotech and its subsidiaries.

PART I

ITEM 1. BUSINESS

General

We are a defense and security products and services company, engaged in two business areas: interactive simulation for military, law enforcement and commercial markets; and batteries and charging systems for the military. We operate primarily through our various subsidiaries, which we have organized into two divisions. Our divisions and subsidiaries (both 100% owned by us) are as follows:

× ¨ ¨ We develop, manufacture and market advanced high-tech multimedia and interactive digital solutions for use-of-force training and driving training of military, law enforcement, security and other personnel through our ***Training and Simulation Division***:

- … We provide simulators, systems engineering and software products to the United States military, government and private industry through our subsidiary FAAC Incorporated, located in Ann Arbor, Michigan ("FAAC"); and
- … Through FAAC, we provide specialized "use of force" training for police, security personnel and the military under the trade name IES Interactive Training ("IES").

× ¨ ¨ We manufacture and sell lithium and Zinc-Air batteries for defense and security products, including our Soldier Wearable Integrated Power Equipment System (SWIPES)™ power hubs, and other military applications through our ***Battery and Power Systems Division***:

- … We develop and sell rechargeable and primary lithium batteries and smart chargers to the military and to private defense industry in the Middle East, Europe and Asia under our Epsilor nameplate ("Epsilor"), through our subsidiary Epsilor-Electric Fuel, Ltd. ("Epsilor-EFL"), at Epsilor-EFL's facilities located in Dimona, Israel (in Israel's Negev desert area);
- … We develop, manufacture and market primary Zinc-Air batteries, rechargeable batteries and battery chargers for the military, focusing on applications that demand high energy and light weight, as well as our Soldier Wearable Integrated Power Equipment System (SWIPES)™ power hub product, through our subsidiary Electric Fuel Battery Corporation, located in Auburn, Alabama ("EFB"); and
- … We produce water-activated lifejacket lights for commercial aviation and marine applications under our Electric Fuel nameplate ("EFL"), at Epsilor-EFL's facilities located in Beit Shemesh, Israel (between Jerusalem and Tel-Aviv).

Background

We were incorporated in Delaware in 1990 under the name "Electric Fuel Corporation," and we changed our name to "Arotech Corporation" on September 17, 2003. Unless the context requires otherwise, all references to us refer collectively to Arotech Corporation and Arotech's wholly-owned Israeli subsidiary Epsilor-EFL; and Arotech's wholly-owned United States subsidiaries, EFB and FAAC. Additionally, we operate under the trade names of IES Interactive Training ("IES"), Realtime Technologies ("RTI") and Electric Fuel Limited ("EFL). Unless otherwise indicated, all reported figures include only these operations and exclude the discontinued Armor segment.

Between 2002 and December 2011, we were also engaged in utilizing advanced engineering concepts to manufacture military and paramilitary armored vehicles, and employing sophisticated lightweight materials to produce aviation armor, through our Armor Division. In December 2011, our Board of Directors approved management's plan to sell our Armor Division in order to focus on the more profitable and growth-oriented aspects of our business. We completed the sale of our Armor Division in June 2012.

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For financial information concerning the business segments in which we operate, see Note 16.b. of the Notes to the Consolidated Financial Statements. For financial information about geographic areas in which we engage in business, see Note 16.c. of the Notes to the Consolidated Financial Statements.

Facilities

Our principal executive offices are located at 1229 Oak Valley Drive, Ann Arbor, Michigan 48108, and our toll-free telephone number at our executive offices is (800) 281-0356. Our corporate website is www.arotech.com. Our periodic reports, as well as recent filings relating to transactions in our securities by our executive officers and directors, that have been filed with the Securities and Exchange Commission in EDGAR format are made available through hyperlinks located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Reference to our websites does not constitute incorporation of any of the information thereon or linked thereto into this annual report.

The offices and facilities of Epsilor-EFL are located in Israel (in Beit Shemesh and Dimona, both of which are within Israel's pre-1967 borders). Most of the members of our senior management work extensively out of Epsilor-EFL's facilities in Beit Shemesh; our financial operations are conducted primarily from our principal executive offices in Ann Arbor. FAAC's home offices and facilities are located in Ann Arbor, Michigan, Royal Oak, Michigan and Orlando, Florida. The facilities of EFB are located in Auburn, Alabama.

Training and Simulation Division

We develop, manufacture and market advanced high-tech multimedia and interactive digital solutions for use-of-force training and driver training of military, law enforcement, security and other personnel through our Training and Simulation Division, the larger of our two divisions. During 2013 and 2012, revenues from our Training and Simulation Division were approximately $63.4 million and $59.3 million, respectively.

The Training and Simulation Division concentrates on three different product areas:

× ¨ ¨ Our *Vehicle Simulation* group provides high fidelity vehicle simulators for use in operator training and is marketed under our FAAC and Realtime Technologies nameplates;

× ¨ ¨ Our *Military Operations* group provides weapon simulations used to train military pilots in the effective use of air launched weapons and is also marketed under our FAAC nameplate; and

× ¨ ¨ Our *Use of Force* group provides training products focused on the proper employment of hand carried weapons and is marketed under our IES Interactive Training nameplate.

Vehicle Simulation

We provide simulators, systems engineering and software products focused on training vehicle operators for cars and trucks. We provide these products to the United States military, government, municipalities, and private industry through our FAAC nameplate. Our fully interactive driver-training systems feature state-of-the-art vehicle simulator technology enabling training in situation awareness, risk analysis and decision making, emergency reaction and avoidance procedures, and proper equipment operation techniques. Our simulators have successfully trained hundreds of thousands of drivers.

Our Vehicle Simulation group focuses on the development and delivery of complete driving simulations for a wide range of vehicle types – such as trucks, automobiles, subway trains, buses, fire trucks, police cars, ambulances, airport ground vehicles, and military vehicles not including the U.S. Army's Virtual Clearance Training Suite (VCTS) program. In 2013, our Vehicle Simulations group accounted for approximately 9.5% of our Training and Simulation Division's revenues.

We believe that we have held a dominant market share in U.S. military wheeled vehicle operator driver training simulators since 1999 and that we are currently one of three significant participants in the U.S. municipal wheeled vehicle simulators market.

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In January 2008, we added Realtime Technologies Incorporated to our Vehicle Simulation group. RTI specializes in multi-body vehicle dynamics modeling and graphical simulation solutions. RTI offers simulation software applications, consulting services, and custom software and hardware development services primarily for use by the automobile industry and universities engaged in the study of vehicle performance or operator/vehicle interactions. We merged RTI into FAAC in January 2010.

Military Operations

In the area of Military Operations, we believe we are a premier developer of validated, high fidelity analytical models and simulations of tactical air and land warfare systems for all branches of the Department of Defense and its related industrial contractors. Our simulations are found in systems ranging from instrumented air combat and maneuver training ranges (such as Top Gun), full task training devices such as the F-18 Weapon Tactics Trainer, and in the on-board computer of many fighter jet aircraft. We supply on-board software to support weapon launch decisions for the F-15, F-16, F-18, F-22 and Joint Strike Fighter (JSF) fighter aircraft. Additionally, FAAC is a prime contractor in respect of the VCTS program. In 2013, our Military Operations group (including VCTS) accounted for 75.4% of our Training and Simulation Division's revenues. Our VCTS project accounted for 40.7% of our Training and Simulation Division's revenues.

Use-of-Force

We are a leading provider of interactive, multimedia, fully digital training simulators for law enforcement, security, military and similar applications. With a large customer base spread over twenty countries around the world, we are a leader in the supply of simulation training products to law enforcement, governmental, and commercial clients. We conduct our interactive training activities and market our interactive training products, such as the MILO (Multiple Interactive Learning/training Objectives) System, the A2Z Classroom Trainer (a state-of-the-art Computer Based Training (CBT) system that allows students to interact with realistic interactive scenarios projected life-size in the classroom), and the Range FDU (firearm diagnostics unit), using our IES Interactive Training nameplate. In 2013, our Use of Force group accounted for 11.0% of our Training and Simulation Division's revenues.

Warranty

We typically offer a one to two year warranty for most of its products. Additionally, we sell extended warranties to our existing customers. In 2013, warranty revenue accounted for 4.1% of our Training and Simulation Division's revenues.

Marketing and Customers

We market our Simulation Division products to all branches of the U.S. military, federal and local government, municipal transportation departments, and public safety groups. Municipalities throughout the U.S. are using our vehicle simulators and use-of-force products, and our penetration in Asia, Europe and the Americas continues through the use of commissioned sales agents and regional distributors.

We have long-term relationships, many of over ten years' duration, with the U.S. Air Force, U.S. Navy, U.S. Army, U.S. Marine Corps, Department of Homeland Security, and most major Department of Defense training and simulation prime contractors and related subcontractors. The quality of our customer relationships is illustrated by the multiple program contract awards we have earned from many of our customers.

Competition

Our technical excellence, superior product reliability, and high customer satisfaction have enabled us to develop market leadership and attractive competitive positions in each of our product areas.

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VEHICLE SIMULATORS

Several potential competitors in this segment are large, diversified defense and aerospace conglomerates who do not focus on our specific niches. As such, we are able to provide service on certain large military contracts through strategic agreements with these organizations or can compete directly with these organizations based on our strength in developing higher quality software solutions. In municipal market applications, we compete against smaller, less sophisticated software companies. Many of our competitors have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours.

MILITARY OPERATIONS

Currently no significant competitors participate in the markets we serve around our weapon simulation niche. Our over 35-year history in this space provides a library of resources that would require a competitor to invest heavily in to offer a comparable product. The companies that could logically compete with us if they chose would be the companies that now subcontract this work to us: Boeing, Raytheon and Cubic.

USE OF FORCE

We compete against a number of established companies that provide similar products and services, many of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours. There are also companies whose products do not compete directly, but are sometimes closely related. Firearms Training Systems, Inc., Advanced Interactive Systems, Inc., and LaserShot Inc. are our main competitors in this space.

Battery and Power Systems Division

We manufacture and sell Lithium and Zinc-Air batteries for defense and security products and other military applications through our Battery and Power Systems Division. During 2013 and 2012, revenues from our Battery and Power Systems Division were approximately $25.1 million and $20.8 million, respectively.

Lithium Batteries and Charging Systems for the Military

INTRODUCTION

We sell lithium batteries and charging systems, including the SWIPES™ power hubs we produce for the Army's Soldier Warrior program, to the military through our subsidiaries Epsilor-EFL and EFB.

We specialize in the design and manufacture of primary and rechargeable batteries, related electronic circuits and associated chargers for military applications. We have experience in working with government agencies, the military and large corporations. Our technical team has significant expertise in the fields of electrochemistry, electronics, software and battery design, production, packaging and testing.

Our Soldier Wearable Integrated Power Equipment System, or SWIPES™, power hub utilizes the MOLLE vest and integrates force protection electronics and communications equipment with an advanced battery. The system utilizes a modular power distribution system that is powered by BA-8180/U, BA-8140/U Zinc-air batteries or the LI-145, BB2590 rechargeable batteries for direct power of equipment, allowing for extended mission times without the burden of power source swaps or charging due to their high energy density, and reducing battery weight soldiers carry by up to 30%. The batteries continuously charge the secondary batteries inside various devices, such as two way radios, GPS units and shot detection systems. The SWIPES™ product allows for individual tailoring by the warfighter and is designed to accept new applications as they become available. The SWIPES™ power hub was recognized by the U.S Army Research, Development and Engineering Command as one of the U.S. Army's ten greatest inventions of 2010.

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Competition

The main competitors for our lithium-ion battery products are Bren-tronics Inc. in the United States, which controls much of the U.S. rechargeable market, ABSL Power Solutions Limited (a wholly owned subsidiary of CIP Industries Incorporated LLP) in the United Kingdom, which has the majority of the English military market, and Ultralife Batteries, Inc. in the United States. On the primary end of the market there are a host of players who include the cell manufacturers themselves, including Saft S.A. and Ultralife Batteries, Inc.

It should be noted that a number of OEMs, such as Motorola, have internal engineering groups that can develop competitive products in-house. Additionally, many of our competitors have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours.

Marketing

We market to our existing customers through direct sales. To generate new customers and applications, we rely on our working relationship with a selection of OEMs, with the intent of having these OEMs design our products into their equipment, thereby creating a market with a high entry barrier. Another avenue for market entry is via strategic relationships with major cell manufacturers. We are now starting direct marketing efforts to emerging markets where we believe the number of local mature competitors is limited.

Manufacturing

Our battery production lines for military batteries and chargers have been ISO-9001 certified since 1994. We believe that Epsilor-EFL's 23,000 square foot facility in Dimona, Israel has the necessary capabilities and operations to support our production cycle.

Zinc-Air Batteries and Chargers for the Military

Introduction

We base our strategy in the field of Zinc-Air military batteries on the development and commercialization of our Zinc-Air battery technology, as applied in the batteries we produce for the U.S. Army's Communications and Electronics Command (CECOM), through our subsidiary EFB. We will continue to seek new applications for our technology in defense projects, wherever synergistic technology and business benefits may exist. We intend to continue to develop our battery products for defense agencies, and plan to sell our products either directly to such agencies or through prime contractors. We will also look to extend our reach to military markets outside the United States.

Our batteries have been used in both Afghanistan (Operation Enduring Freedom) and in Iraq (Operation Iraqi Freedom). Our BA-8180/U Zinc-Air battery was recognized by the U.S Army Research, Development and Engineering Command as one of the U.S. Army's ten greatest inventions of 2003.

Our Zinc-Air batteries, rechargeable batteries and battery chargers for the military are manufactured through EFB. EFB's facilities have been granted ISO 9001 "Top Quality Standard" certification.

Markets/Applications

As an external alternative to the popular lithium based BA-5590/U, the BA-8180/U can be used in many applications operated by the BA-5590/U. The BA-8180/U can be used for a variety of military applications.

Customers

The principal customers for our Zinc-Air batteries during 2013 were the U.S. Army's Communications-Electronics Command (CECOM) and the Defense Logistics Agency (DLA). In addition, we continue to further penetrate Special Forces and other specific U.S. military units with direct sales.

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Competition

The BA-8180/U is the only Zinc-Air battery to hold a U.S. Army battery designation and an NSN. It does, however, compete with other primary (disposable) batteries, and primarily lithium based batteries. In some cases it will also compete with rechargeable batteries.

Zinc-Air batteries are inherently safer than primary lithium battery packs in storage, transportation, use, and disposal, and are more cost-effective. They are lightweight, with up to twice the energy density of primary lithium battery packs. Zinc-Air batteries for the military are also under development by Rayovac Corporation. Rayovac's military Zinc-Air batteries utilize cylindrical cells, rather than the prismatic cells that we developed. While cylindrical cells may provide higher specific power than our prismatic cells, we believe they will generally have lower energy densities and be more difficult to manufacture.

The most popular competing primary battery in use by the US Armed Forces is the BA-5590/U, which uses lithium-sulfur dioxide ($LiSO_2$) cells. The largest suppliers of $LiSO_2$ batteries to the US military are believed to be Saft America Inc. and Eagle Picher Technologies LLC. The battery compartment of most military communications equipment, as well as other military equipment, is designed for the XX90 family of batteries, of which the BA-5590/U battery is the most commonly deployed. Another primary battery in this family is the BA-5390/U, which uses lithium-manganese dioxide ($LiMnO_2$) cells. Suppliers of $LiMnO_2$ batteries include Ultralife Batteries Inc., Saft and Eagle Picher.

Rechargeable batteries in the XX90 family include lithium-ion (BB-2590/U) and nickel-metal hydride (BB-390/U) batteries which may be used in training missions in order to save the higher costs associated with primary batteries. These rechargeable batteries have also become more prevalent in combat use as their energy densities improve, their availability expands and their State-of-Charge Indicator (SOCI) technologies become more reliable.

Our BA-8180/U does not fit inside the XX90 battery compartment of any military equipment, and therefore is connected externally using an interface adapter that we also sell to the Army. Our battery offers greatly extended mission time, along with lower total mission cost, and these significant advantages often greatly outweigh the slight inconvenience of fielding an external battery.

Manufacturing

EFB maintains a battery and electronics development and manufacturing facility in Auburn, Alabama, housed in a 30,000-square-foot light industrial space leased from the City of Auburn. We also have production capabilities for some battery components at Epsilor-EFL's facility in Beit Shemesh, Israel. Both of these facilities have received ISO 9001 "Top Quality Standard" certification.

Lifejacket Lights

Products

We have a product line consisting of seven lifejacket light models, five for use with marine life jackets and two for use with aviation life vests, all of which work in both freshwater and seawater. Each of our lifejacket lights is certified for use by relevant governmental agencies under various U.S. and international regulations. We manufacture, assemble and package all our lifejacket lights through Epsilor-EFL in our factory in Beit Shemesh, Israel.

Marketing

We market our marine safety products through our own network of distributors in Europe, the United States, Asia and Oceania. We market our lights to the commercial aviation industry through an independent company that receives a commission on sales.

Competition

The largest manufacturer of aviation and marine safety products, including TSO and SOLAS-approved lifejacket lights, is ACR Electronics Inc. of Hollywood, Florida. Other significant competitors in the marine market include Daniamant Aps of Denmark and England, and SIC of Italy.

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Backlog

We generally sell our products under standard purchase orders. Orders constituting our backlog are subject to changes in delivery schedules and are typically cancelable by our customers until a specified time prior to the scheduled delivery date. Accordingly, our backlog is not necessarily an accurate indication of future sales. As of December 31, 2013 and 2012, our backlog for the following year was approximately $58.0 million and $87.7 million, respectively, divided between our divisions as follows:

Division	2013	2012
Training and Simulation Division	$ 45,892,000	$ 72,404,000
Battery and Power Systems Division	12,067,000	15,293,000
TOTAL:	$ 57,959,000	$ 87,697,000

Major Customers

During 2013 and 2012, including both of our divisions, various branches of the United States military accounted for approximately 55% and 54% of our revenues. See "Item 1A. Risk Factors – Risks Related to Government Contracts," below.

Patents and Trade Secrets

We rely on certain proprietary technology and seek to protect our interests through a combination of patents, trademarks, copyrights, know-how, trade secrets and security measures, including confidentiality agreements. Our policy generally is to secure protection for significant innovations to the fullest extent practicable. Further, we seek to expand and improve the technological base and individual features of our products through ongoing research and development programs.

We rely on the laws of unfair competition and trade secrets to protect our proprietary rights. We attempt to protect our trade secrets and other proprietary information through confidentiality and non-disclosure agreements with customers, suppliers, employees and consultants, and through other security measures. However, we may be unable to detect the unauthorized use of, or take appropriate steps to enforce our intellectual property rights. Effective trade secret protection may not be available in every country in which we offer or intend to offer our products and services to the same extent as in the United States. Failure to adequately protect our intellectual property could harm or even destroy our brands and impair our ability to compete effectively. Further, enforcing our intellectual property rights could result in the expenditure of significant financial and managerial resources and may not prove successful. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful.

Research and Development

During the years ended December 31, 2013 and 2012, our research and product development expenses were approximately $3.0 million and $2.0 million, respectively.

Employees

As of December 31, 2013, we had approximately 373 full-time employees worldwide. Our success will depend in large part on our ability to attract and retain skilled and experienced employees.

With respect to those of our employees who are Israeli residents, Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment without due cause; additionally, some of our senior employees have special severance arrangements, certain of which are described under "Item 11. Executive Compensation – Employment Contracts," below. We currently partially fund our ongoing severance obligations by making monthly payments to approved severance funds or insurance policies.

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ITEM 1A. RISK FACTORS

The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Report and presented elsewhere by management from time to time.

Business-Related Risks

We have had a history of losses and may incur future losses.

We were incorporated in 1990 and began our operations in 1991. We have funded our operations principally from funds raised in public and private offerings of our common stock and equity and debt securities convertible or exercisable into shares of our common stock; research contracts and supply contracts; funds received under research and development grants from the Government of Israel; and sales of products that we and our subsidiaries manufacture. We have incurred significant net losses since our inception. Additionally, as of December 31, 2013, we had an accumulated deficit (including discontinued operations) of approximately $183.1 million. In an effort to reduce operating expenses and maximize available resources, we have consolidated certain of our subsidiaries, shifted personnel and reassigned responsibilities. We have also taken a variety of other measures to limit spending and will continue to assess our internal processes to seek additional cost-structure improvements. Although we believe that such steps will help to reduce our operating expenses and maximize our available resources, there can be no assurance that we will ever be able to achieve or maintain profitability consistently or that our business will continue to exist.

We need significant amounts of capital to operate and grow our business and to pay our debt.

We require substantial funds to operate our business, including marketing our products and developing and marketing new products. To the extent that we are unable to fully fund our operations, including repaying our outstanding debt, through profitable sales of our products and services, we will need to seek additional funding, including through the issuance of equity or debt securities. In addition, based on our internal forecasts, the assumptions described under “Liquidity and Capital Resources” below, and subject to the other risk factors described herein, we believe that our present cash position and anticipated cash flows from operations and lines of credit should be sufficient to satisfy our current estimated cash requirements for 2014. However, in the event our internal forecasts and other assumptions regarding our liquidity prove to be incorrect, we may need to seek additional funding. There can be no assurance that we will obtain any such additional financing in a timely manner, on acceptable terms, or at all. If additional funds are raised by issuing equity securities or convertible debt securities, stockholders may incur further dilution. If we incur additional indebtedness, we may be subject to affirmative and negative covenants that may restrict our ability to operate or finance our business. If additional funding is not secured, we will have to modify, reduce, defer or eliminate parts of our present and anticipated future commitments and/or programs.

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Our existing indebtedness may adversely affect our ability to obtain additional funds and may increase our vulnerability to economic or business downturns.

Our bank and other indebtedness (short and long term) totaled approximately $1.9 million as of December 31, 2013 (not including trade payables, other account payables, capital leases, and accrued severance pay), of which none was bank working capital lines of credit. In addition, we may incur additional indebtedness in the future. Accordingly, we are subject to the risks associated with significant indebtedness, including:

- we must dedicate a portion of our cash flows from operations to pay principal and interest and, as a result, we may have less funds available for operations and other purposes;

- it may be more difficult and expensive to obtain additional funds through financings, if available at all;

- we are more vulnerable to economic downturns and fluctuations in interest rates, less able to withstand competitive pressures and less flexible in reacting to changes in our industry and general economic conditions; and

- if we default under any of our existing debt instruments, including paying the outstanding principal when due, and if our creditors demand payment of a portion or all of our indebtedness, we may not have sufficient funds to make such payments.

The occurrence of any of these events could materially adversely affect our results of operations and financial condition and adversely affect our stock price.

Failure to comply with the terms of our indebtedness could result in a default that could have material adverse consequences for us.

A failure to comply with the obligations contained in the agreements governing our indebtedness could result in an event of default under such agreements which could result in an acceleration of debt under other instruments evidencing indebtedness that contain cross-acceleration or cross-default provisions. If our indebtedness were to be accelerated, there can be no assurance that our future cash flow or assets would be sufficient to repay in full such indebtedness. In February 2013, our primary bank increased our credit line by 50%, from $10.0 million to $15.0 million, and the expiration of the credit line was extended to May 31, 2015. The new credit agreement also contains certain covenants for 2013 through 2015, which are measured on a rolling twelve-month basis, limiting the Maximum Increase in Net Advance to Affiliates to less than 90% of EBITDA and meeting a Fixed Charge Coverage Ratio of not less than 1.1 to 1.0.

We may consider acquisitions in the future to grow our business, and such activity could subject us to various risks.

We may consider acquiring companies that will complement our existing operations or provide us with an entry into markets we do not currently serve. Growth through acquisitions involves substantial risks, including the risk of improper valuation of the acquired business and the risk of inadequate integration. There can be no assurance that suitable acquisition candidates will be available, that we will be able to acquire or manage profitably such additional companies or that future acquisitions will produce returns that justify our investments in such companies. In addition, we may compete for acquisition and expansion opportunities with companies that have significantly greater resources than we do. Furthermore, acquisitions could disrupt our ongoing business, distract the attention of our senior officers, increase our expenses, make it difficult to maintain our operational standards, controls and procedures and subject us to contingent and latent risks that are different, in nature and magnitude, than the risks we currently face.

We may finance future acquisitions with cash from operations or additional debt or equity financings. There can be no assurance that we will be able to generate internal cash or obtain financing from external sources or that, if available, such financing will be on terms acceptable to us. The issuance of additional common stock to finance acquisitions may result in substantial dilution to our stockholders. Any debt financing may significantly increase our leverage and may involve restrictive covenants which limit our operations.

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If we are successful in acquiring additional businesses, we may experience a period of rapid growth that could place significant additional demands on, and require us to expand, our management, resources and management information systems. Our failure to manage any such rapid growth effectively could have a material adverse effect on our financial condition, results of operations and cash flows.

We may not generate sufficient cash flow to service all of our debt obligations.

Our ability to make payments on our indebtedness and to fund our operations depends on our ability to generate cash in the future. Our future operating performance is subject to market conditions and business factors that are beyond our control. Consequently, we cannot assure you that we will generate sufficient cash flow to pay the principal and interest on our debt. If our cash flows and capital resources are insufficient to allow us to make scheduled payments on our debt, we may have to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our debt. We cannot assure you that the terms of our debt will allow for these alternative measures or that such measures would satisfy our scheduled debt service obligations. In addition, in the event that we are required to dispose of material assets or restructure or refinance our debt to meet our debt obligations, we cannot assure you as to the terms of any such transaction or how quickly such transaction could be completed. Our ability to refinance our indebtedness or obtain additional financing will depend on, among other things:

- our financial condition at the time;
- restrictions in the agreements governing our other indebtedness; and
- other factors, including the condition of the financial markets and our industry.

Our earnings may decline if we write off additional goodwill and other intangible assets.

As of December 31, 2013, we had recorded goodwill of $31.0 million and any future impairment of goodwill or other intangible assets may have a significant impact on earnings. Goodwill is not amortized, but is tested for impairment at the reporting unit level. Goodwill is required to be tested for impairment annually and between annual tests if events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. There are numerous risks that may cause the fair value of a reporting unit to fall below its carrying amount, which could lead to the measurement and recognition of goodwill impairment. These risks include, but are not limited to, adverse changes in legal factors or the business climate, an adverse action or assessment by a regulator, a more-likely-than-not expectation that all or a significant portion of a reporting unit may be disposed of, a sustained decline in our market capitalization, significant negative variances between actual and expected financial results, and lowered expectations of future financial results.

Some of the components of our products pose potential safety risks which could create potential liability exposure for us.

Some of the components of our products contain elements that are known to pose potential safety risks. In addition to these risks, there can be no assurance that accidents in our facilities will not occur. Any accident, whether occasioned by the use of all or any part of our products or technology or by our manufacturing operations, could adversely affect commercial acceptance of our products and could result in significant production delays or claims for damages resulting from injuries. Any of these occurrences would materially adversely affect our operations and financial condition. In the event that our products fail to perform as specified, users of these products may assert claims for substantial amounts. These claims could have a materially adverse effect on our financial condition and results of operations. There is no assurance that the amount of the general product liability insurance that we maintain will be sufficient to cover potential claims or that the present amount of insurance can be maintained at the present level of cost, or at all.

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We are subject to the Dodd-Frank Wall Street Reform and Consumer Protection Act disclosure requirements regarding the use of "conflict minerals"

Beginning in 2014, the Dodd-Frank Wall Street Reform and Consumer Protection Act imposes new disclosure requirements regarding the use of "conflict minerals" mined from the Democratic Republic of Congo and adjoining countries in products, whether or not these products are manufactured by third parties. The definition of "conflict minerals" includes tin, tantalum, tungsten and gold, and their derivatives, some of which we use in the activities of our Battery Division. These new requirements could affect the pricing, sourcing and availability of minerals used in the manufacture of our products. There will be additional costs associated with complying with the disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. Our supply chain is complex and we may be unable to verify the origins for all metals used in our products. We may also encounter challenges with our customers and stockholders if we are unable to certify that our products are conflict free.

Our fields of business are highly competitive.

The competition to develop defense and security products and to obtain funding for the development of these products is, and is expected to remain, intense.

Our defense and security products compete with other manufacturers of specialized training systems.

Various battery technologies are being considered for use in defense and safety products by other manufacturers and developers, including the following: lead-acid, nickel-cadmium, nickel-iron, nickel-zinc, nickel-metal hydride, sodium-sulfur, sodium-nickel chloride, zinc-bromine, lithium-ion, lithium-polymer, lithium-iron sulfide, primary lithium, rechargeable alkaline and Zinc-Air.

Many of our competitors have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours. If we are unable to compete successfully in each of our operating areas, our business and results of operations could be materially adversely affected.

Our business is dependent on proprietary rights that may be difficult to protect and could affect our ability to compete effectively.

Our ability to compete effectively will depend on our ability to maintain the proprietary nature of our technology and manufacturing processes through a combination of patent and trade secret protection, non-disclosure agreements and licensing arrangements.

Litigation, or participation in administrative proceedings, may be necessary to protect our proprietary rights. This type of litigation can be costly and time consuming and could divert company resources and management attention to defend our rights, and this could harm us even if we were to be successful in the litigation. In the absence of patent protection, and despite our reliance upon our proprietary confidential information, our competitors may be able to use innovations similar to those used by us to design and manufacture products directly competitive with our products. In addition, no assurance can be given that others will not obtain patents that we will need to license or design around. To the extent any of our products are covered by third-party patents, we could need to acquire a license under such patents to develop and market our products.

Despite our efforts to safeguard and maintain our proprietary rights, we may not be successful in doing so. In addition, competition is intense, and there can be no assurance that our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technology. In the event of patent litigation, we cannot assure you that a court would determine that we were the first creator of inventions covered by our issued patents or pending patent applications or that we were the first to file patent applications for those inventions. If existing or future third-party patents containing broad claims were upheld by the courts or if we were found to infringe third-party patents, we may not be able to obtain the required licenses from the holders of such patents on acceptable terms, if at all. Failure to obtain these licenses could cause delays in the introduction of our products or necessitate costly attempts to design around such patents, or could foreclose the development, manufacture or sale of our products. We could also incur substantial costs in defending ourselves in patent infringement suits brought by others and in prosecuting patent infringement suits against infringers.

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We also rely on trade secrets and proprietary know-how that we seek to protect, in part, through non-disclosure and confidentiality agreements with our customers, employees, consultants, and entities with which we maintain strategic relationships. We cannot assure you that these agreements will not be breached, that we would have adequate remedies for any breach or that our trade secrets will not otherwise become known or be independently developed by competitors.

We are dependent on key personnel and our business would suffer if we fail to retain them.

We are highly dependent on the president of our FAAC subsidiary and the general managers of our Epsilor-EFL subsidiary and the loss of the services of either or both of these persons could adversely affect us. We are especially dependent on the services of our Chairman and Chief Executive Officer, Robert S. Ehrlich, and our President, Steven Esses. The loss of either Mr. Ehrlich or Mr. Esses could have a material adverse effect on us. We are party to employment agreements with Mr. Ehrlich and Mr. Esses, both of which agreements expire at the end of 2015. Pursuant to these agreements, effective September 30, 2014, Mr. Esses will become our Chief Executive Officer, and Mr. Ehrlich will remain as our Chairman. We do not have key-man life insurance on either Mr. Ehrlich or Mr. Esses.

We face risks related to general domestic and global economic conditions.

In general, our operating results can be significantly affected by negative economic conditions, high labor, material and commodity costs and unforeseen changes in demand for our products and services. These risks are heightened as economic conditions globally have deteriorated significantly and may remain at recessionary levels for the foreseeable future. The current recessionary conditions could have a potentially significant negative impact on demand for our products and services, which may have a direct negative impact on our sales and profitability, as well as our ability to generate sufficient internal cash flows or access credit at reasonable rates to meet future operating expenses, service debt and fund capital expenditures.

There are risks involved with the international nature of our business.

A significant portion of our sales are made to customers located outside the U.S., primarily in Europe and Asia. In 2013 and 2012, 16.5% and 20.4%, respectively, of our revenues, were derived from sales to customers located outside the U.S. We expect that our international customers will continue to account for a substantial portion of our revenues in the near future. Sales to international customers may be subject to political and economic risks, including political instability, currency controls, exchange rate fluctuations, foreign taxes, longer payment cycles and changes in import/export regulations and tariff rates. In addition, various forms of protectionist trade legislation have been and in the future may be proposed in the U.S. and certain other countries. Any resulting changes in current tariff structures or other trade and monetary policies could adversely affect our sales to international customers. See also "Israel-Related Risks," below.

Risks Related to Government Contracts

A significant portion of our business is dependent on government contracts and reduction or reallocation of defense or law enforcement spending could reduce our revenues.

Many of our Training and Simulation Division's customers to date have been in the public sector of the U.S., including the federal, state and local governments, and in the public sectors of a number of other countries. Additionally, the majority of EFB's sales to date of battery products for the military and defense sectors have been in the public sector in the United States. A significant decrease in the overall level or allocation of defense or law enforcement spending in the U.S. or other countries could reduce our revenues and have a material adverse effect on our future results of operations and financial condition.

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Sales to public sector customers are subject to a multiplicity of detailed regulatory requirements and public policies as well as to changes in training and purchasing priorities. Contracts with public sector customers may be conditioned upon the continuing availability of public funds, which in turn depends upon lengthy and complex budgetary procedures, and may be subject to certain pricing constraints. Moreover, U.S. government contracts and those of many international government customers may generally be terminated for a variety of factors when it is in the best interests of the government and contractors may be suspended or debarred for misconduct at the discretion of the government. There can be no assurance that these factors or others unique to government contracts or the loss or suspension of necessary regulatory licenses will not reduce our revenues and have a material adverse effect on our future results of operations and financial condition.

A decline in the U.S. Government defense budget, changes in budgetary priorities or timing of contract awards may adversely affect our future revenues and limit our growth prospects.

Revenues under contracts with the U.S. Department of Defense (“DoD”), either as a prime contractor or subcontractor to other contractors, represent a substantial portion of our total revenues. Our operating results could be adversely affected by spending caps or changes in the budgetary priorities of the U.S. Government or the DoD, as well as delays in program starts or the award of contracts or task orders under contracts.

An impasse in federal budget decision-making could lead to substantial delays or reductions in federal spending. For example, as a result of inability of the U.S. Government to reach agreement on budget reduction measures required by the Budget Control Act of 2011, sequestration triggered substantial automatic spending reductions beginning in January 2013, divided between defense and domestic spending over a nine-year period. As a result, U.S. Government funding for certain of our customers may be reduced, delayed or eliminated, which could significantly impact these customers’ demand for our products and services and if so would have a material adverse effect on our business, results of operations and cash flows. While the future impact of sequestration is uncertain, these automatic across-the-board budget cuts in sequestration could have significant negative consequences to our business and industry.

In years when Congress does not complete its budget process before the end of its fiscal year (September 30), government operations are funded through a continuing resolution (CR) that temporarily funds federal agencies. Recent CRs have generally provided funding at the levels provided in the previous fiscal year and have not authorized new spending initiatives. When the federal government operates under a CR, delays can occur in the procurement of products and services. Historically, such delays have not had a material effect on our business; however, should funding of the federal government by CR be prolonged or extended through the entire government 2014 fiscal year, and sequestration is not alleviated, it could continue to have significant consequences to our business and our industry.

Additionally, our business could be seriously affected if the demand for and priority of funding for combat operations in Afghanistan decreases which may reduce the demand for our services on contracts supporting some operations and maintenance activities in the Department of Defense or if we experience an increase in set-asides for small businesses, which could result in our inability to compete directly for prime contracts.

Our U.S. government contracts may be terminated at any time and may contain other unfavorable provisions.

The U.S. government typically can terminate or modify any of its contracts with us either for its convenience or if we default by failing to perform under the terms of the applicable contract. A termination arising out of our default could expose us to liability and have a material adverse effect on our ability to re-compete for future contracts and orders. Our U.S. government contracts contain provisions that allow the U.S. government to unilaterally suspend us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations, reduce the value of existing contracts, issue modifications to a contract and control and potentially prohibit the export of our products, services and associated materials.

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Government agencies routinely audit government contracts. These agencies review a contractor's performance on its contract, pricing practices, cost structure and compliance with applicable laws, regulations and standards. If we are audited, we will not be reimbursed for any costs found to be improperly allocated to a specific contract, while we would be required to refund any improper costs for which we had already been reimbursed. Therefore, an audit could result in a substantial adjustment to our revenues. If a government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or debarment from doing business with United States government agencies. We could suffer serious reputational harm if allegations of impropriety were made against us. A governmental determination of impropriety or illegality, or an allegation of impropriety, could have a material adverse effect on our business, financial condition or results of operations.

We may be liable for penalties under a variety of procurement rules and regulations, and changes in government regulations could adversely impact our revenues, operating expenses and profitability.

Our defense and commercial businesses must comply with and are affected by various government regulations that impact our operating costs, profit margins and our internal organization and operation of our businesses. Among the most significant regulations are the following:

- the U.S. Federal Acquisition Regulations, which regulate the formation, administration and performance of government contracts;
- the U.S. Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations; and
- the U.S. Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under certain cost-based government contracts.

These regulations affect how we and our customers do business and, in some instances, impose added costs on our businesses. Any changes in applicable laws could adversely affect the financial performance of the business affected by the changed regulations. With respect to U.S. government contracts, any failure to comply with applicable laws could result in contract termination, price or fee reductions or suspension or debarment from contracting with the U.S. government.

We may not be able to receive or retain the necessary licenses or authorizations required for us to export or re-export our products, technical data or services, or to transfer technology from foreign sources (including our own subsidiaries) and to work collaboratively with them. Denials of such licenses and authorizations could have a material adverse effect on our business and results of operations.

U.S. regulations concerning export controls require us to screen potential customers, destinations, and technology to ensure that sensitive equipment, technology and services are not exported in violation of U.S. policy or diverted to improper uses or users.

In order for us to export certain products, technical data or services, we are required to obtain licenses from the U.S. government, often on a transaction-by-transaction basis. These licenses are generally required for the export of the military versions of our products and technical data and for defense services. We cannot be sure of our ability to obtain the U.S. government licenses or other approvals required to export our products, technical data and services for sales to foreign governments, foreign commercial customers or foreign destinations.

In addition, in order for us to obtain certain technical know-how from foreign vendors and to collaborate on improvements on such technology with foreign vendors, including at times our own foreign subsidiaries, we may need to obtain U.S. government approval for such collaboration through manufacturing license or technical assistance agreements approved by U.S. government export control agencies.

The U.S. government has the right, without notice, to revoke or suspend export licenses and authorizations for reasons of foreign policy, issues over which we have no control.

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Failure to receive required licenses or authorizations would hinder our ability to export our products, data and services and to use some advanced technology from foreign sources. This could have a material adverse effect on our business, results of operations and financial condition.

Our failure to comply with export control rules could have a material adverse effect on our business.

Our failure to comply with these rules could expose us to significant criminal or civil enforcement action by the U.S. government, and a conviction could result in denial of export privileges, as well as contractual suspension or debarment under U.S. government contracts, either of which could have a material adverse effect on our business, results of operations and financial condition.

Our operating margins may decline under our fixed-price contracts if we fail to estimate accurately the time and resources necessary to satisfy our obligations.

Some of our contracts are fixed-price contracts under which we bear the risk of any cost overruns. Our profits are adversely affected if our costs under these contracts exceed the assumptions that we used in bidding for the contract. Often, we are required to fix the price for a contract before we finalize the project specifications, which increases the risk that we will misprice these contracts. The complexity of many of our engagements makes accurately estimating our time and resources more difficult. In the event we fail to estimate our time and resources accurately, our expenses will increase and our profitability, if any, under such contracts will decrease.

If we are unable to retain our contracts with the U.S. government and subcontracts under U.S. government prime contracts in the competitive rebidding process, our revenues may suffer.

Upon expiration of a U.S. government contract or subcontract under a U.S. government prime contract, if the government customer requires further services of the type provided in the contract, there is frequently a competitive rebidding process. We cannot guarantee that we, or if we are a subcontractor that the prime contractor, will win any particular bid, or that we will be able to replace business lost upon expiration or completion of a contract. Further, all U.S. government contracts are subject to protest by competitors. The termination or nonrenewal of several of our significant contracts could result in considerable revenue shortfalls.

The loss of, or a significant reduction in, U.S. military business would have a material adverse effect on us.

U.S. military contracts account for a significant portion of our business. The U.S. military funds these contracts in annual increments. These contracts require subsequent authorization and appropriation that may not occur or that may be greater than or less than the total amount of the contract. Changes in the U.S. military’s budget, spending allocations and the timing of such spending could adversely affect our ability to receive future contracts. None of our contracts with the U.S. military has a minimum purchase commitment, and the U.S. military generally has the right to cancel its contracts unilaterally without prior notice. The loss of, or a significant reduction in, U.S. military business could have a material adverse effect on our business, financial condition, results of operations and liquidity.

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Market-Related Risks

The price of our common stock is volatile.

The market price of our common stock has been volatile in the past and may change rapidly in the future. The following factors, among others, may cause significant volatility in our stock price:

… announcements by us, our competitors or our customers;

… the introduction of new or enhanced products and services by us or our competitors;

… changes in the perceived ability to commercialize our technology compared to that of our competitors;

… rumors relating to our competitors or us;

… actual or anticipated fluctuations in our operating results;

… the issuance of our securities, including warrants, in connection with financings and acquisitions; and

… general market or economic conditions.

If our shares were to be delisted, our stock price might decline further and we might be unable to raise additional capital.

One of the continued listing standards for our stock on the Nasdaq Stock Market (both the Nasdaq Global Market, on which our stock is currently listed, and the Nasdaq Capital Market) is the maintenance of a $1.00 bid price. Our stock price has periodically traded below $1.00 in the past. If our bid price were to decrease and remain below $1.00 for 30 consecutive business days, Nasdaq could notify us of our failure to meet the continued listing standards, after which we would have 180 calendar days to correct such failure or be delisted from the Nasdaq Global Market. Although we would have the opportunity to appeal any potential delisting, there can be no assurances that this appeal would be resolved favorably. As a result, there can be no assurance that our common stock will remain listed on the Nasdaq Global Market. If our common stock were to be delisted from the Nasdaq Global Market, we might apply to be listed on the Nasdaq Capital Market if we then met the initial listing standards of the Nasdaq Capital Market (other than the $1.00 minimum bid standard). If we were to move to the Nasdaq Capital Market, current Nasdaq regulations would give us the opportunity to obtain an additional 180-day grace period if we meet certain net income, stockholders' equity or market capitalization criteria; if at the end of that period we had not yet achieved compliance with the minimum bid price rule, we would be subject to delisting from the Nasdaq Capital Market. Although we would have the opportunity to appeal any potential delisting, there can be no assurances that this appeal would be resolved favorably. In addition, we may be unable to satisfy the other continued listing requirements. As a result, there can be no assurance that our common stock will remain listed on the Nasdaq Stock Market.

While our stock would continue to trade on the over-the-counter bulletin board following any delisting from the Nasdaq, any such delisting of our common stock could have an adverse effect on the market price of, and the efficiency of the trading market for, our common stock. Trading volume of over-the-counter bulletin board stocks has been historically lower and more volatile than stocks traded on an exchange or the Nasdaq Stock Market. As a result, holders of our securities could find it more difficult to sell their securities. Also, if in the future we were to determine that we need to seek additional equity capital, it could have an adverse effect on our ability to raise capital in the public equity markets.

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In addition, if we fail to maintain Nasdaq listing for our securities, and no other exclusion from the definition of a "penny stock" under the Securities Exchange Act of 1934, as amended, is available, then any broker engaging in a transaction in our securities would be required to provide any customer with a risk disclosure document, disclosure of market quotations, if any, disclosure of the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market values of our securities held in the customer's account. The bid and offer quotation and compensation information must be provided prior to effecting the transaction and must be contained on the customer's confirmation. If brokers become subject to the "penny stock" rules when engaging in transactions in our securities, they would become less willing to engage in transactions, thereby making it more difficult for our stockholders to dispose of their shares.

***We do not anticipate paying cash dividends*.**

We currently intend to retain any future earnings for funding growth and, as a result, do not expect to pay any cash dividends in the foreseeable future. Additionally, our ability to declare dividends should we decide to do so is restricted by the terms of our debt agreements.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could discourage a takeover.

Provisions of our amended and restated certificate of incorporation may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock. These provisions:

… divide our board of directors into three classes serving staggered three-year terms;

… only permit removal of directors by stockholders "for cause," and require the affirmative vote of at least 85% of the outstanding common stock to so remove; and

… allow us to issue preferred stock without any vote or further action by the stockholders.

The classification system of electing directors and the removal provision may tend to discourage a third-party from making a tender offer or otherwise attempting to obtain control of us and may maintain the incumbency of our board of directors, as the classification of the board of directors increases the difficulty of replacing a majority of the directors. These provisions may have the effect of deferring hostile takeovers, delaying changes in our control or management, or may make it more difficult for stockholders to take certain corporate actions. The amendment of any of these provisions would require approval by holders of at least 85% of the outstanding common stock.

Israel-Related Risks

A significant portion of our operations takes place in Israel, and we could be adversely affected by the economic, political and military conditions in that region.

The offices and facilities of Epsilor-EFL are located in Israel (in Beit Shemesh and Dimona, both of which are within Israel's pre-1967 borders). Most of our senior management is located in Beit Shemesh. Although we expect that most of our sales will continue to be made to customers outside Israel, we are nonetheless directly affected by economic, political and military conditions in that country. Accordingly, any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel.

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Historically, Arab states have boycotted any direct trade with Israel and to varying degrees have imposed a secondary boycott on any company carrying on trade with or doing business in Israel. Although in October 1994, the states comprising the Gulf Cooperation Council (Saudi Arabia, the United Arab Emirates, Kuwait, Dubai, Bahrain and Oman) announced that they would no longer adhere to the secondary boycott against Israel, and Israel has entered into certain agreements with Egypt, Jordan, the Palestine Liberation Organization and the Palestinian Authority, Israel has not entered into any peace arrangement with Syria or Lebanon. Moreover, since September 2000, there has been a significant deterioration in Israel's relationship with the Palestinian Authority. Efforts to resolve the problem have failed to result in an agreeable solution.

In July and August of 2006, Israel was involved in a full-scale armed conflict with Hezbollah, a Lebanese Islamist Shiite militia group and political party, in southern Lebanon, which involved missile strikes against civilian targets in northern Israel that resulted in economic losses. On August 14, 2006, a ceasefire was declared relating to that armed conflict, although it is uncertain whether or not the ceasefire will continue to hold.

Israel withdrew unilaterally from the Gaza Strip and certain areas in northern Samaria in 2005. Thereafter Hamas, an Islamist terrorist group responsible for many attacks, including missile strikes against Israeli civilian targets, won the majority of the seats in the Parliament of the Palestinian Authority in January 2006 and took control of the entire Gaza Strip, by force, in June 2007. Since then, Hamas and other Palestinian movements have launched thousands of missiles from the Gaza strip into civilian targets in southern Israel. In late 2008, a sharp increase in rocket fire from Gaza on Israel's western Negev region, extending as far as 25 miles into Israeli territory and disrupting most day-to-day civilian activity in the proximity of the border with the Gaza Strip, prompted the Israeli government to launch military operations against Hamas that lasted approximately three weeks. Israel declared a unilateral ceasefire in January 2009, which substantially diminished the frequency of, but did not eliminate, Hamas rocket attacks against Israeli cities. In November 2012, following an increase in rocket attacks and hostile activity originating from the Gaza Strip, the Israeli government launched an air attack on Hamas. Rockets were fired into Israel extending as far as Tel Aviv and Jerusalem. After seven days, a ceasefire was agreed to by Israel and Hamas. Since then, rocket attacks have been significantly reduced, but not totally stopped. There can be no assurance that this period of relative calm will continue, especially in light of continuing rhetoric between Iran and Israel.

Our Israeli production facilities in the cities of Beit Shemesh and Dimona, are located approximately 27 miles and 38 miles, respectively, from the nearest point of the border with the Gaza Strip. There can be no assurance that Hamas will not begin to use on a more frequent basis longer-range missiles capable of reaching our facilities, which could result in a significant disruption of the Israel-based portion of our business. Additionally, recent political events, including political uprisings, social unrest and regime change, in various countries in the Middle East and North Africa have weakened the stability of those countries, which could result in extremists coming to power, including in countries with which Israel has signed peace treaties that may not be respected by extremists. In addition, Iran has threatened to attack Israel and Israel is reported to be considering a pre-emptive attack on Iran, which is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. These situations may potentially escalate in the future to more violent events which may affect Israel and us. Any major hostilities involving Israel, including as a result of the military conflicts between the Fatah and Hamas in Gaza Strip, Judea and Samaria, or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our business, operating results and financial condition.

In addition to the foregoing, since the end of 2010, numerous acts of protest and civil unrest have taken place in several countries in the Middle East and North Africa, many of which involved significant violence. The civil unrest in Egypt, which borders Israel, resulted in significant changes to the country's government. In Syria, also bordering Israel, large and violent protests against the government are taking place. The ultimate effect of these developments on the political and security situation in the Middle East and on Israel's position within the region is not clear at this time.

Service of process and enforcement of civil liabilities on us and our officers may be difficult to obtain.

We are organized under the laws of the State of Delaware and will be subject to service of process in the United States. However, approximately 26.9% of our assets are located outside the United States. In addition, two of our directors and some of our executive officers are residents of Israel and a portion of the assets of such directors and executive officers are located outside the United States.

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There is doubt as to the enforceability of civil liabilities under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, in original actions instituted in Israel. As a result, it may not be possible for investors to enforce or effect service of process upon these directors and executive officers or to judgments of U.S. courts predicated upon the civil liability provisions of U.S. laws against our assets, as well as the assets of these directors and executive officers. In addition, awards of punitive damages in actions brought in the U.S. or elsewhere may be unenforceable in Israel.

Exchange rate fluctuations between the U.S. dollar and the Israeli NIS may negatively affect our earnings.

Although a substantial majority of our revenues and a substantial portion of our expenses are denominated in U.S. dollars, a portion of our costs, including personnel and facilities-related expenses, is incurred in New Israeli Shekels (NIS). Inflation in Israel will have the effect of increasing the dollar cost of our operations in Israel, unless it is offset on a timely basis by a devaluation of the NIS relative to the dollar. In 2013, the inflation-adjusted NIS appreciated against the dollar.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our primary executive offices are located in FAAC's offices, consisting of approximately 17,300 square feet of office and warehouse space in Ann Arbor, Michigan, pursuant to a lease expiring in July 2018. FAAC has also leased 17,200 square feet of office and warehouse space adjacent to our main offices pursuant to a lease beginning in June 2006 and expiring in July 2018. Additionally, pursuant to a lease expiring in October 2014, FAAC is leasing approximately 10,000 square feet of office and lab space in Orlando, Florida.

FAAC also leases approximately 5,500 square feet in Royal Oak, Michigan pursuant to a lease terminating in November 2018.

In August 2011 FAAC purchased 40,000 square feet of office and warehouse space in Ann Arbor, Michigan, approximately three miles from its current location, where it began to consolidate certain of its operations beginning in 2011. Subsequently, in December 2012, FAAC subleased 7,000 square feet of surplus space of the purchased building to a non-profit organization as office space for a term of 10 years with an option to terminate the sublease with a one year prior notice in May 2018.

EFB operates out of our leased Auburn, Alabama facilities, constituting approximately 30,000 square feet, which is leased from the City of Auburn through January, 2015.

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Our management and administrative facilities and research, development and production facilities for the manufacture and assembly of our Survivor Locator Lights, constituting approximately 21,000 square feet, are located in Beit Shemesh, Israel, located between Jerusalem and Tel-Aviv (within Israel's pre-1967 borders). The lease for these facilities in Israel expires on December 31, 2017. Most of the members of our senior management, including our Chief Executive Officer and our President, work extensively out of our Beit Shemesh facility. Our Chief Financial Officer works out of our Ann Arbor, Michigan facility.

Our Epsilor-EFL subsidiary rents approximately 23,000 square feet of factory, office and warehouse space in Dimona, Israel, in Israel's Negev desert (within Israel's pre-1967 borders), on a month-to-month basis.

In March 2007, we purchased 16,700 square feet of space for the now discontinued Armor Division in Auburn, Alabama for approximately $1.1 million pursuant to a seller-financed secured purchase money mortgage. Half of the mortgage is payable over ten years in equal monthly installments based on a 20-year amortization of the full principal amount, and the remaining half is payable at the end of ten years in a balloon payment. The building is currently leased to a third party and has been listed for sale with a local real estate agent. Additionally, the carrying value of this property was written down to zero as part of the 2011 Armor Division impairment.

We believe that our existing and currently planned facilities are adequate to meet our current and foreseeable future needs.

ITEM 3. LEGAL PROCEEDINGS

As of the date of this filing, there were no material pending legal proceedings against us, and there were no material legal proceedings active against us during 2013.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Global Market. Our Nasdaq ticker symbol is "ARTX." The following table sets forth, for the periods indicated, the range of high and low sales prices of our common stock on the Nasdaq Global Market System:

Year Ended December 31, 2013	High	Low
Fourth Quarter	$ 3.91	$ 1.63
Third Quarter	$ 2.71	$ 1.32
Second Quarter	$ 1.93	$ 1.00
First Quarter	$ 1.31	$ 0.91

Year Ended December 31, 2012	High	Low
Fourth Quarter	$ 1.18	$ 0.90
Third Quarter	$ 1.00	$ 0.71
Second Quarter	$ 1.30	$ 0.85
First Quarter	$ 1.39	$ 1.11

As of February 28, 2014, we had approximately 157 holders of record of our common stock.

Share Repurchase Program

In February of 2009, we authorized the repurchase in the open market or in privately negotiated transactions of up to $1.0 million of our common stock. Pursuant to this plan, through December 31, 2013 we have repurchased 638,611 shares of our common stock for $869,931 ($857,018 net of commissions), all of which was purchased after April 1, 2009. We did not repurchase any shares during 2013 or 2012. The program now expires in August 2014.

The repurchase program is subject to management's discretion.

Dividends

We have never paid any cash dividends on our common stock. The Board of Directors presently intends to retain all earnings for use in our business. Any future determination as to payment of dividends will depend upon our financial condition and results of operations and such other factors as the Board of Directors deems relevant. Additionally, our ability to declare dividends should we decide to do so is restricted by the terms of our debt agreements.

Annual Stockholders Meeting

We held our 2013 Annual Meeting of Stockholders on November 12, 2013. Our 2014 Annual Meeting of Stockholders will be held on Monday, August 11, 2014 commencing at 10:00 a.m., eastern daylight time.

In light of the foregoing and in accordance with Rules 14a-5(f) and 14a-8(e)(2) under the Securities Exchange Act of 1934, as amended, we will consider stockholder proposals submitted in connection with our 2014 Annual Meeting to have been submitted in a timely fashion if such proposals are received by us at our principal offices no later than March 31, 2014. If a proposal is received after March 31, 2014, the proxies designated by the Board of Directors of the Company will have discretionary authority to vote on the proposal under circumstances consistent with the proxy rules of the Securities and Exchange Commission.

We expect to mail our Notice of Annual Meeting and Notice of Internet Availability of Proxy Materials, containing links to our Annual Report to Stockholders for the year ended December 31, 2013 and our Proxy Statement for the 2014 Annual Meeting, on or about July 1, 2014.

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ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve inherent risks and uncertainties. When used in this discussion, the words "believes," "anticipated," "expects," "estimates" and similar expressions are intended to identify such forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those set forth elsewhere in this report. Please see "Risk Factors," above, and in our other filings with the Securities and Exchange Commission.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements contained in Item 8 of this report, and the notes thereto. We have rounded amounts reported here to the nearest thousand, unless such amounts are more than $1.0 million, in which event we have rounded such amounts to the nearest hundred thousand.

General

We are a defense and security products and services company, engaged in two business areas: interactive simulation for military, law enforcement and commercial markets; and batteries and charging systems for the military. We operate in two business units:

× ¨ ¨ We develop, manufacture and market advanced high-tech multimedia and interactive digital solutions for use-of-force training and driving training of military, law enforcement, security and other personnel (our ***Training and Simulation Division***); and

× ¨ ¨ We manufacture and sell lithium and Zinc-Air batteries for defense and security products, including our Soldier Wearable Integrated Power Equipment System (SWIPES)™ power hubs, and other military applications (our ***Battery and Power Systems Division***).

Between 2002 and December 2011, we were also engaged in utilizing advanced engineering concepts to manufacture military and paramilitary armored vehicles, and employing sophisticated lightweight materials to produce aviation armor, through our Armor Division. In December 2011, our Board of Directors approved management's plan to sell our Armor Division in order to focus on the more profitable and growth-oriented aspects of our business. We completed the sale of our Armor Division in June 2012.

The discontinuation of the Armor Division for accounting purposes resulted in a one-time, pre-tax charge during the fourth quarter of 2011 of approximately $3.9 million, reflecting an impairment of goodwill and intangibles ($1.8 million), an impairment of other long-lived assets ($1.5 million), a write-off of a joint venture investment ($269,000), and costs associated with change of control provisions and other non-statutory severance expenses ($302,000). Almost all these charges are non-cash impacting items. In 2012, an additional pre-tax adjustment of approximately $829,000 was recorded to reflect a loss upon the sale.

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Critical Accounting Policies

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowance for bad debts, stock compensation, taxes, inventory, contingencies and deferred warranty revenue, impairment of intangible assets and goodwill. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Under different assumptions or conditions, actual results may differ from these estimates.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Significant management judgments and estimates must be made and used in connection with the recognition of revenue in any accounting period. Material differences in the amount of revenue in any given period may result if these judgments or estimates prove to be incorrect or if management's estimates change on the basis of development of the business or market conditions. Management judgments and estimates have been applied consistently and have been reliable historically.

A portion of our revenue is derived from license agreements that entail the customization of FAAC's simulators to the customer's specific requirements. Revenues from initial license fees for such arrangements are recognized in accordance with FASB ASC 605-35 based on the percentage of completion method over the period from signing of the license through to customer acceptance, as such simulators require significant modification or customization that takes time to complete. The percentage of completion is measured by monitoring progress using records of actual time incurred to date in the project compared with the total estimated project requirement, which corresponds to the costs related to earned revenues. Estimates of total project requirements are based on prior experience of customization, delivery and acceptance of the same or similar technology and are reviewed and updated regularly by management.

We believe that the use of the percentage of completion method is appropriate as we have the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. In addition, contracts executed include provisions that clearly specify the enforceable rights regarding services to be provided and received by the parties to the contracts, the consideration to be exchanged and the manner and terms of settlement. In all cases we expect to perform our contractual obligations and our licensees are expected to satisfy their obligations under the contract. The complexity of the estimation process and the issues related to the assumptions, risks and uncertainties inherent with the application of the percentage of completion method of accounting affect the amounts of revenue and related expenses reported in our consolidated financial statements. A number of internal and external factors can affect our estimates, including labor rates, utilization and specification and testing requirement changes.

We account for our other revenues from IES simulators in accordance with the provisions of FASB ASC 985-605. We exercise judgment and use estimates in connection with the determination of the amount of software license and services revenues to be recognized in each accounting period.

Stock Based Compensation

We account for stock options and awards issued to employees in accordance with the fair value recognition provisions of FASB ASC 505-50. Under FASB ASC 505-50, stock-based awards to employees are required to be recognized as compensation expense, based on the calculated fair value on the date of grant. We determine the fair value of options using the Black Scholes option pricing model. This model requires subjective assumptions, including future stock price volatility and expected term, which affect the calculated values.

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Allowance for Doubtful Accounts

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding receivables. In determining the provision, we analyze our historical collection experience and current economic trends. We reassess these allowances each accounting period. Historically, our actual losses and credits have been consistent with these provisions. If actual payment experience with our customers is different than our estimates, adjustments to these allowances may be necessary resulting in additional charges to our statement of operations.

Accounting for Income Taxes

Significant judgment is required in determining our worldwide income tax expense provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of cost reimbursement arrangements among related entities, the process of identifying items of revenue and expense that qualify for preferential tax treatment and segregation of foreign and domestic income and expense to avoid double taxation. Although we believe that our estimates are reasonable, the final tax outcome of these matters may be different than that which is reflected in our historical income tax provisions and accruals.

We have provided a valuation allowance on our net deferred tax assets, which includes federal and foreign net operating loss carryforwards, because of the uncertainty regarding their realization. Our accounting for deferred taxes under FASB ASC 740-10, involves the evaluation of a number of factors concerning the realizability of our deferred tax assets. In concluding that a valuation allowance was required, we primarily considered such factors as our history of operating losses and expected future losses in certain jurisdictions and the nature of our deferred tax assets. We provide valuation allowances in respect of deferred tax assets resulting principally from the carryforward of tax losses. Management currently believes that it is more likely than not that our deferred tax assets in the U.S. and Israel will not be realized in the foreseeable future. We do not provide for U.S. federal income taxes on the undistributed earnings of our foreign subsidiaries because such earnings are re-invested and, in the opinion of management, will continue to be re-invested indefinitely.

We have indefinitely-lived intangible assets consisting of trademarks and goodwill. Pursuant to FASB ASC 350-10, these indefinitely-lived intangible assets are not amortized for financial reporting purposes. However, these assets are tax deductible, and therefore amortized over 15 years for tax purposes. As such, deferred income tax expense and a deferred tax liability arise as a result of the tax-deductibility of these indefinitely-lived intangible assets. The resulting deferred tax liability, which is expected to continue to increase over time, will have an indefinite life, resulting in what is referred to as a “naked tax credit.” This deferred tax liability could remain on our balance sheet indefinitely for continuing operations unless there is an impairment of the related assets (for financial reporting purposes), or the business to which those assets relate were to be disposed of.

Due to the fact that the aforementioned deferred tax liability could have an indefinite life, it should not be netted against our deferred tax assets (which primarily relate to net operating loss carryforwards) when determining the required valuation allowance. Doing so would result in the understatement of the valuation allowance and related deferred income tax expense.

We have adopted the provisions of the FASB ASC 740-10. FASB ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. We must determine whether it is “more-likely-than-not” that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If our determinations and estimates prove to be inaccurate, the resulting adjustments could be material to our future financial statements.

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In addition, we operate within multiple taxing jurisdictions and may be subject to audits in these jurisdictions. These audits can involve complex issues that may require an extended period of time for resolution. In management's opinion, adequate provisions for income taxes have been made.

Inventories

Our policy for valuation of inventory and commitments to purchase inventory, including the determination of obsolete or excess inventory, requires us to perform a detailed assessment of inventory at each balance sheet date, which includes a review of, among other factors, an estimate of future demand for products within specific time horizons, valuation of existing inventory, as well as product lifecycle and product development plans. The estimates of future demand that we use in the valuation of inventory are the basis for our revenue forecast, which is also used for our short-term manufacturing plans. Inventory reserves are also provided to cover risks arising from slow-moving items. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based on assumptions about future demand and market conditions. We may be required to record additional inventory write-down if actual market conditions are less favorable than those projected by our management. For fiscal 2013, no significant changes were made to the underlying assumptions related to estimates of inventory valuation or the methodology applied.

Goodwill

As of December 31, 2013, we had recorded goodwill of $31.0 million. We allocate goodwill acquired in a business combination to the appropriate reporting unit as of the acquisition date. Currently our reporting units are also our reportable segments and the associated goodwill was determined when the specific businesses in the reportable segments were purchased. Under FASB ASC 350-10, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests, and tests between annual tests in certain circumstances, based on estimated fair value in accordance with FASB ASC 350-10, and written down when impaired.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment." ASU 2011-08 amends the guidance in Accounting Standards Codification ASC 350-10. Under the revised guidance, when testing goodwill for impairment we have the option of performing a qualitative assessment before calculating the fair value of a reporting unit. If the Company determines, on the basis of qualitative factors, that it is more likely than not that the fair value of the reporting unit is greater than the carrying amount, the two-step impairment test would not be required. If we cannot determine on the basis of qualitative factors that goodwill is not impaired, goodwill is then tested for impairment by using a discounted cash flow analysis. This type of analysis requires us to make assumptions and estimates regarding industry economic factors and the profitability of future business strategies. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for the reportable units. It is our policy to conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as future expectations. In assessing the recoverability of our goodwill, we may be required to make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. This process is subjective and requires judgment at many points throughout the analysis. If our estimates or their related assumptions change in subsequent periods or if actual cash flows are below our estimates, we may be required to record impairment charges for these assets not previously recorded.

We completed our annual goodwill impairment review using the financial results as of the quarter ended June 30, 2013 and again as of the quarter ended December 31, 2013 using our forecasted plan developed in the fourth quarter. We originally used a June 30 date because this allowed us to use internal resources that are available before we start our annual audit process but our management determined that an impairment review as of December 31, 2013 would be more appropriate as it better aligns the timing of our budget process with this test.

As noted above, under revised FASB guidance (ASU No. 2011-08, "Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment"), under certain circumstances we have the option of performing a qualitative assessment when testing goodwill for impairment. We determined that this qualitative assessment would be appropriate in the case of our Training and Simulation Division, but that with respect to our Battery and Power Systems Division, we determined that we were required to perform a quantitative analysis.

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With respect to our Training and Simulation Division, in both the December 31, 2013 review and the June 30, 2013 review, we determined, using qualitative factors, that no goodwill was impaired.

With respect to our Battery and Power Systems Division, in both the December 31, 2013 review and the June 30, 2013 review, we undertook the first step of the quantitative analysis, in which we computed a fair value of that reporting unit. The valuation for Battery and Power Systems Division at the quarter ended June 30, 2013 exceeded the unit's carrying value. The valuation completed for the quarter ended December 31, 2013 also exceeded the reporting unit's carrying value by over 19%; we will continue to monitor the actual results of the reporting unit versus the forecast used for the impairment review and reevaluate the goodwill as required. Because we determined with respect to our Battery and Power Systems Division that the fair value was greater than the carrying value of the unit at the measurement date, the second step of the quantitative impairment assessment was not required, and no goodwill was impaired.

We also consider our current market capitalization compared to the sum of the estimated fair values of its reporting units in conjunction with each impairment assessment. As part of this consideration, management recognizes that our market capitalization may not be an accurate representation of the sum of the reporting unit fair values for the following reasons:

- The long term horizon of the valuation process versus a short term valuation using current market conditions;
- The valuation by individual business segments versus the market share value based on our company as a whole including unallocable corporate costs;
- The fact that our stock is thinly traded and widely dispersed with minimal institutional ownership, and thus not followed by major market analysts, leading management to conclude that the market in our securities was not acting as an informationally efficient reflection of all known information regarding us; and
- Control premiums reflected in the reporting unit fair values but not in our stock price.

As of the December 31, 2013 valuation date, our market capitalization was approximately $70.4 million, which did not, in management's view, suggest that the fair value estimates used in its impairment assessment required any adjustment.

Other Intangible Assets

Other intangible assets are amortized to the Statement of Operations over the period during which benefits are expected to accrue, currently estimated at one to ten years.

The determination of the value of such intangible assets requires us to make assumptions regarding future business conditions and operating results in order to estimate future cash flows and other factors to determine the fair value of the respective assets. If these estimates or the related assumptions change in the future, we could be required to record additional impairment charges.

Contingencies

We are from time to time involved in legal proceedings and other claims. We are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. We have not made any material changes in the accounting methodology used to establish our self-insured liabilities during the past three fiscal years.

A determination of the amount of reserves required, if any, for any contingencies are made after careful analysis of each individual issue. The required reserves may change due to future developments in each matter or changes in approach, such as a change in the settlement strategy in dealing with any contingencies, which may result in higher net loss.

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If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material.

Warranty Reserves

Upon shipment of products to our customers, we defer revenue for the estimated cost to repair or replace products along with the appropriate margin for goods that may be returned under warranty. Our warranty period is typically twelve months from the date of shipment to the end user customer. For existing products, the deferred revenue is estimated based on actual historical experience. For new products, the warranty deferred revenue is based on historical experience of similar products until such time as sufficient historical data has been collected on the new product. Factors that may impact our warranty costs in the future include our reliance on our contract manufacturer to provide quality products and the fact that our products are complex and may contain undetected defects, errors or failures in either the hardware or the software.

Functional Currency

We consider the United States dollar to be the currency of the primary economic environment in which we and EFL operate and, therefore, both we and EFL have adopted and are using the United States dollar as our functional currency. Transactions and balances originally denominated in U.S. dollars are presented at the original amounts. Gains and losses arising from non-dollar transactions and balances are included in net income.

The majority of financial transactions of Epsilor is in New Israeli Shekels ("NIS") and a substantial portion of Epsilor's costs is incurred in NIS. Management believes that the NIS is the functional currency of Epsilor. Accordingly, the financial statements of Epsilor have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the period. The resulting translation adjustments are reported as a component of accumulated other comprehensive loss in stockholders' equity.

Executive Summary

Overview of Results of Operations

We incurred an operating loss for the year ended December 31, 2012 but we achieved profitability for the year ended December 31, 2013. While we expect to continue to derive revenues from the sale of products that we manufacture and the services that we provide, there can be no assurance that we will be able to maintain profitability on a consistent basis.

A portion of our operating loss during 2012 arose as a result of one-time expenses, non-cash and impairment charges. These charges were primarily related to our prior transactional activities, financings and stock-based awards to employees. To the extent that we continue certain of these activities during 2014, we would expect to continue to incur such expenses in the future.

ACQUISITIONS

In acquisition of subsidiaries, part of the purchase price is allocated to intangible assets and goodwill. Amortization of intangible assets related to acquisition of subsidiaries is recorded based on the estimated expected life of the assets. Accordingly, for a period of time following an acquisition, we incur a non-cash charge related to amortization of intangible assets in the amount of a fraction (based on the useful life of the intangible assets) of the amount recorded as intangible assets. Such amortization charges continued during 2013. We are required to review intangible assets for impairment whenever events or changes in circumstances indicate that carrying amount of the assets may not be recoverable. If we determine, through the impairment review process, that an intangible asset has been impaired, we must record the impairment charge in our statement of operations.

In the case of goodwill, the assets recorded as goodwill are not amortized; instead, we are required to perform an annual impairment review. If we determine, through the impairment review process, that goodwill has been impaired, we must record the impairment charge in our statement of operations.

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We incurred non-cash charges for amortization of intangible assets in 2013 and 2012 in the amount of $1.1 million and $1.2 million, respectively.

Issuances of Restricted Share and Restricted Stock Units.

During 2013 and 2012, we issued restricted shares and restricted stock units to certain of our employees and to our directors. Each restricted stock unit is equal to one share of Company stock and is redeemable only for stock. These shares were issued as stock bonuses or were the required annual grant to directors, and are restricted for a period of up to three years from the date of issuance. Relevant accounting rules provide that the aggregate amount of the difference between the purchase price of the restricted shares or restricted stock units (in this case, generally zero) and the market price of the shares on the date of grant is taken as a general and administrative expense, amortized over the life of the period of the restriction.

We incurred non-cash charges related to stock-based compensation in 2013 and 2012 in the amount of $437,000 and $448,000, respectively.

Overview of Operating Performance and Backlog

Overall, our pre-tax profit from continuing operations for 2013 was $3.3 million on revenues of $88.6 million, compared to a pre-tax loss of $1.4 million on revenues of $80.1 million during 2012. As of December 31, 2013, our overall backlog for continuing operations totaled $58.0 million.

In our Training and Simulation Division, revenues increased from approximately $59.3 million in 2012 to $63.4 million in 2013. As of December 31, 2013, our backlog for our Training and Simulation Division totaled $45.9 million.

In our Battery and Power Systems Division, revenues increased from approximately $20.8 million in 2012 to approximately $25.1 million in 2013. As of December 31, 2013, our backlog for our Battery and Power Systems Division totaled $12.1 million.

Common Stock Repurchase Program

In February 2009, we authorized the repurchase in the open market or in privately negotiated transactions of up to $1.0 million of our common stock. Pursuant to this plan, through December 31, 2013, we have repurchased 638,611 shares of our common stock for $869,931 ($857,018 net of commissions), all of which was purchased after April 1, 2009. At December 31, 2013, we had remaining authorization for the repurchase of up to $142,982 in shares of our common stock. The repurchase program, which expires on August 12, 2014, is subject to the discretion of our management.

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Results of Operations

SUMMARY

Following is a table summarizing our results of continuing operations for the years ended December 31, 2013 and 2012, after which we present a narrative discussion and analysis:

	Year Ended December 31,	
	2013	2012
Revenues:		
Training and Simulation Division	$ 63,425,319	$ 59,270,768
Battery and Power Systems Division	25,146,109	20,779,666
	$ 88,571,428	$ 80,050,434
Cost of revenues:		
Training and Simulation Division	$ 44,257,129	$ 44,822,270
Battery and Power Systems Division	20,223,011	17,318,768
	$ 64,480,140	$ 62,141,038
Research and development expenses:		
Training and Simulation Division	$ 1,296,956	$ 698,349
Battery and Power Systems Division	1,658,927	1,345,369
	$ 2,955,883	$ 2,043,718
Selling and marketing expenses:		
Training and Simulation Division	$ 4,448,036	$ 4,513,244
Battery and Power Systems Division	1,169,669	974,666
	$ 5,617,705	$ 5,487,910
General and administrative expenses:		
Training and Simulation Division	$ 3,553,058	$ 3,456,873
Battery and Power Systems Division	1,630,641	946,727
Corporate	5,703,260	5,649,165
	$ 10,886,959	$ 10,052,765
Amortization of intangible assets:		
Training and Simulation Division	$ 581,886	$ 676,299
Battery and Power Systems Division	509,240	509,240
	$ 1,091,126	$ 1,185,539
Operating income (loss):		
Training and Simulation Division	$ 9,288,254	$ 5,103,733
Battery and Power Systems Division	(45,379)	(315,104)
Corporate	(5,703,260)	(5,649,165)
	$ 3,539,615	$ (860,536)
Other income:		
Training and Simulation Division	$ 4,761	$ 5,926
Battery and Power Systems Division	253,600	2,327
Corporate	27,896	31
	$ 286,347	$ 8,284
Financial expense (income):		
Training and Simulation Division	$ (44,146)	$ (43,221)
Battery and Power Systems Division	(30,733)	(7,639)
Corporate	(424,393)	(497,126)
	$ (499,272)	$ (547,986)
Income tax expense (benefit):		
Training and Simulation Division	$ 319,225	$ (7,688)
Battery and Power Systems Division	134,995	–
Corporate	598,500	635,844

	$ 1,052,720	$ 628,156
Net income (loss) – continuing operations:		
Training and Simulation Division	$ 8,929,644	$ 5,074,126
Battery and Power Systems Division	42,493	(320,416)
Corporate	(6,698,167)	(6,782,104)
	$ 2,273,970	$ (2,028,394)

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Fiscal Year 2013 compared to Fiscal Year 2012

Revenues. During 2013, we (through our subsidiaries) recognized revenues as follows:

× ¨ ¨ **Training and Simulation Division –** FAAC, IES and RTI recognized revenues from the sale of military operations and vehicle simulators, interactive use-of-force training systems and from the provision of maintenance services in connection with such systems.

× ¨ ¨ **Battery and Power Systems Division** – EFB and Epsilor-EFL recognized revenues from the sale of batteries, chargers, adapters and power hub products to the military and commercial customers, and under certain development contracts with the U.S. Army.

× ¨ ¨ **Battery and Power Systems Division** – Epsilor-EFL also recognized revenues from the sale of water-activated battery (WAB) lifejacket lights.

Revenues for continuing operations for 2013 totaled $88.6 million, compared to $80.1 million in 2012, an increase of $8.5 million, or 10.6%. This increase was primarily attributable to the following factors:

× ¨ ¨ Increased revenues from our Training and Simulation Division ($4.1 million more in 2013 versus 2012), due primarily to the Boom Operator Simulator System (BOSS) contract.

× ¨ ¨ Increased revenues from our Battery and Power Systems Division ($4.4 million more in 2013 versus 2012), due to an increase of $667,000 from the prior year's sales in the U.S. of SWIPES™ along with increased sales in our other battery products.

The table below details the percentage of total recognized revenue by type of arrangement for the years ended December 31, 2013 and 2012:

	Year Ended December 31,	
Type of Revenue	**2013**	**2012**
Sale of products	95.0%	96.0%
Maintenance and support agreements	3.3%	2.8%
Long term research and development contracts	1.7%	1.2%
Total	100.0%	100.0%

Cost of revenues. Cost of revenues totaled $64.5 million during 2013, compared to $62.1 million in 2012, an increase of $2.4 million, or 3.8%, due primarily to increased revenues in our Training and Simulation Division, as well as increased sales in the U.S. of the SWIPES™ system. Cost of revenues as a percentage of revenue remained essentially flat in our Battery and Power Systems Division but increased in our Training and Simulation Division due primarily to the product mix and the VCTS contract.

Research and development expenses. Research and development expenses for 2013 were $3.0 million, compared to $2.0 million during 2012, an increase of $912,000, or 44.6%, due primarily to increased spending in both divisions for continuing research on new products.

Selling and marketing expenses. Selling and marketing expenses for 2013 were $5.6 million, compared to $5.5 million in 2012, an increase of $130,000, or 2.4%, due to a slight decrease of expenses in our Training and Simulation Division offset by a slight increase in our Battery and Power Division.

General and administrative expenses. General and administrative expenses for 2013 were $10.9 million, compared to $10.1 million in 2012, an increase of $834,000, or 8.3%, due primarily to a reduction of $358,000 in corporate consulting, audit and legal expenses offset by an increase of $692,000 in corporate compensation expense and an increase of $350,000 in compensation expense in our Battery and Power Systems Division, the latter due primarily to increased staffing and other expenses to accommodate the significant growth in this division.

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Amortization of intangible assets. Amortization of intangible assets totaled $1.1 million in 2013, compared to $1.2 million in 2012, a decrease of $94,000, or 8.0%, due primarily to decreased charges for fully amortized capitalized software in our Training and Simulation Division.

Financial expenses, net. Financial expense totaled $499,000 in 2013, compared to financial expense of $548,000 in 2012, a decrease of $49,000, or 8.9%, due primarily to exchange rate differences.

Income taxes. With respect to some of our subsidiaries that generated pre-tax income during 2013, we were able to offset federal taxes against our accumulated loss carry forward. We recorded $1.1 million in tax expense in 2013, compared to $628,000 in tax expense in 2012, an increase of $425,000, or 67.6%, mainly due to increased profits in our Training and Simulation Division. This amount includes the required adjustment of taxes due to the deduction of goodwill "naked" credits ("naked" credits occur when deferred tax liabilities that are created by indefinite-lived assets such as goodwill cannot be used as a source of taxable income to support the realization of deferred tax assets). This amount includes the required adjustment of taxes due to the deduction of goodwill "naked" credits for U.S. federal taxes, which totaled $599,000 in non-cash expenses in both 2013 and 2012.

Net income. Due to the factors cited above, we went from a net loss from continuing operations of $2.0 million in 2012 to a net income of $2.3 million in 2013, an improvement of $4.3 million.

Liquidity and Capital Resources

As of December 31, 2013, we had $5.8 million in cash and $498,000 in restricted collateral deposits, as compared to December 31, 2012, when we had $1.6 million in cash and $186,000 in restricted collateral deposits. We have experienced fluctuations in available cash in the previous twelve months due to the funding requirements of our larger contracts. These fluctuations have not had a significant impact on our operations, due in part to the increase in our credit facility that was negotiated with our primary bank in 2013. We also had $10.2 million in available, unused bank lines of credit with our main bank as of December 31, 2013, under a $15.0 million credit facility under our FAAC subsidiary, which is secured by our assets and the assets of our other subsidiaries and guaranteed by us. As of December 31, 2013, we had no short-term bank debt.

We and FAAC maintain a $15.0 million credit facility with FAAC's primary bank, which is secured by Arotech's assets and the assets of our other domestic subsidiaries and guaranteed by Arotech and our other domestic subsidiaries, at a rate of LIBOR plus 375 basis points and an unused line of credit fee of 0.35%. This credit facility expires May 31, 2015. The credit agreement contains certain covenants, including minimum Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), quarterly Maximum Increase in Net Advance to Affiliates of less than 90% of EBITDA and an annual Fixed Charge Coverage Ratio of not less than 1.1 to 1.0. At the end of 2013 and as of the filing date of this report, we met all required current covenants.

In September and October 2013, we sold an aggregate of 3,942,856 shares of our common stock in a public offering for an aggregate of $6.9 million (before $562,000 of underwriting discounts and commissions and expenses of the offering).

We used available funds in 2013 primarily for investment in fixed assets and repayment of short term debt. We purchased approximately $1.7 million of property and equipment during 2013. Our net property and equipment amounted to $4.9 million as of December 31, 2013.

Net cash provided by (used in) operating activities for 2013 and 2012 was $10.2 million and $(4.4 million), respectively, a net change in usage of $14.6 million. This difference was due primarily to the profit from continuing operations along with changes in working capital. The timing of cash inflows and outflows has impacted us due to the substantial purchases of products to fulfill the contracts in the Simulation and Training Division and Battery and Power Systems Division.

Net cash provided by (used in) investing activities for 2013 and 2012 was $(1.9 million) and $371,000, a net change of $2.3 million. This difference was due primarily to the purchase of capital equipment and changes in restricted collateral deposits.

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Net cash provided by (used in) financing activities for 2013 and 2012 was $(4.4 million) and $3.5 million, respectively, a change of $7.9 million. The change in 2013 of cash used in financing activities was due primarily to receipt of $6.3 million (net) from a public offering that we conducted in 2013, offset by a pay down in long and short term debt of $10.7 million.

As of December 31, 2013, we had no short-term bank debt and $1.9 million in long-term debt outstanding, as compared to December 31, 2012, when we had approximately $9.8 million in short-term bank debt and $1.9 million in long-term debt outstanding for continuing operations, including current maturities.

Subject to all of the reservations regarding “forward-looking statements” set forth above, we believe that our present cash position, anticipated cash flows from operations and availability under our lines of credit should be sufficient to satisfy our current estimated cash requirements through the next twelve months. In this connection, we note that from time to time our working capital needs are partially dependent on our subsidiaries’ lines of credit.

Effective Corporate Tax Rate

We and certain of our subsidiaries incurred net operating losses during the years ended December 31, 2013 and 2012. With respect to some of our U.S. subsidiaries that operated at a net profit during 2013, we were able to offset federal taxes against our net operating loss carryforward. These subsidiaries are, however, subject to state taxes that cannot be offset against our net operating loss carryforward. We also set up a tax liability for the impact of the deductions taken for goodwill.

As of December 31, 2013, we had a U.S. net operating loss carryforward of approximately $39.6 million that is available to offset future taxable income under certain circumstances, expiring primarily from 2020 through 2032, and foreign net operating and capital loss carryforwards of approximately $95.4 million, which are available indefinitely to offset future taxable income under certain circumstances.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

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ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of December 31, 2013, our management, including the principal executive officer and principal financial officer, evaluated our disclosure controls and procedures related to the recording, processing, summarization, and reporting of information in our periodic reports that we file with the SEC. These disclosure controls and procedures are intended to ensure that material information relating to us, including our subsidiaries, is made known to our management, including these officers, by other of our employees, and that this information is recorded, processed, summarized, evaluated, and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Any system of controls and procedures, no matter how well designed and operated, can at best provide only reasonable assurance that the objectives of the system are met and management necessarily is required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Our controls and procedures are intended to provide only reasonable, not absolute, assurance that the above objectives have been met.

Based on their evaluation as of December 31, 2013, our principal executive officer and principal financial officer were able to conclude that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective.

We will continue to review and evaluate the design and effectiveness of our disclosure controls and procedures on an ongoing basis and to improve our controls and procedures over time and correct any deficiencies that we may discover in the future. Our goal is to ensure that our senior management has timely access to all material financial and non-financial information concerning our business. While we believe the present design of our disclosure controls and procedures is effective to achieve our goal, future events affecting our business may cause us to modify our disclosure controls and procedures.

Management's Report on Internal Control Over Financial Reporting

Our management, including our principal executive and financial officers, is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our management has evaluated the effectiveness of our internal controls as of the end of the period covered by this Annual Report on Form 10-K for the year ended December 31, 2013. In making our assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in the1992 *Internal Control – Integrated Framework*.

Based on management's assessment and these criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter to which this Annual Report on Form 10-K relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Executive Officers, Directors and Significant Employees

Executive Officers and Directors

Our executive officers and directors and their ages as of February 28, 2014 were as follows:

Name	Age	Position
Robert S. Ehrlich	76	Chairman of the Board and Chief Executive Officer
Steven Esses	50	President and Director
Dr. Jay M. Eastman	65	Director
Seymour Jones	82	Director
Michael E. Marrus	50	Director
Arthur S. Leibowitz	60	Director
Thomas J. Paup	65	Senior Vice President – Finance and Chief Financial Officer

Our by-laws provide for a board of directors of one or more directors. There are currently seven directors. Under the terms of our certificate of incorporation, the board of directors is composed of three classes of similar size, each elected in a different year, so that only one-third of the board of directors is elected in any single year. Dr. Eastman and Mr. Marrus are designated Class I directors and have been elected for a term expiring in 2015 or until their successors are elected and qualified; Prof. Jones and Mr. Leibowitz are designated Class II directors elected for a term expiring in 2014 or until their successors are elected and qualified; and Messrs. Ehrlich and Esses are designated Class III directors elected for a term that expires in 2016 or until their successors are elected and qualified. A majority of the Board is "independent" under relevant SEC and Nasdaq regulations.

Robert S. Ehrlich has been our Chairman of the Board since January 1993 and our Chief Executive Officer since October 2002. From May 1991 until January 1993, Mr. Ehrlich was our Vice Chairman of the Board, from May 1991 until October 2002 he was our Chief Financial Officer, and from October 2002 until December 2005, Mr. Ehrlich also held the title of President. Mr. Ehrlich was a director of Eldat, Ltd., an Israeli manufacturer of electronic shelf labels, from June 1999 to August 2003. From 1987 to June 2003, Mr. Ehrlich served as a director of PSC Inc. ("PSCX"), a manufacturer and marketer of laser diode bar code scanners, and, between April 1997 and June 2003, Mr. Ehrlich was the chairman of the board of PSCX. Mr. Ehrlich received a B.S. and J.D. from Columbia University in New York, New York.

Mr. Ehrlich has experience as an accountant, an attorney and as an investment banker. He has been involved with public companies since the late 1960s, both as an investment banker and as the chief financial officer and a director of Mattel, where he was instrumental in helping to uncover fraudulent practices in the preparation of certain of that company's financial statements, and he continued to serve as a director of Mattel through the late 1980s. After leaving Mattel, Mr. Ehrlich founded his own boutique investment banking company and became a director of certain of the companies involved in his investment banking business. Mr. Ehrlich ultimately became the Chairman and CEO of Fresenius USA, Inc. and of PSCX, prior to becoming our Chief Financial Officer in 1991 and our Chief Executive Officer in 2002. We believe that Mr. Ehrlich's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

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Steven Esses has been a director since July 2002, our Executive Vice President since January 2003, our Chief Operating Officer from February 2003 until February 2012 and our President since December 2005. From 2000 until 2002, Mr. Esses was a principal with Stillwater Capital Partners, Inc., a New York-based investment research and advisory company (hedge fund) specializing in alternative investment strategies. During this time, Mr. Esses also acted as an independent consultant to new and existing businesses in the areas of finance and business development. In 1995, Mr. Esses founded the Dunkin' Donuts franchise in Israel and was its Managing Director and CEO until 2005. Before founding Dunkin' Donuts Israel, Mr. Esses was the Director of Retail Jewelry Franchises with Hamilton Jewelry, and before that he served as Executive Director of Operations for the Conway Organization, a major off-price retailer with 17 locations.

Mr. Esses has been actively involved in the day-to-day management of companies since he was 22, when he co-founded a company that eventually went public. He has worked in retail and wholesale, in high-tech and low-tech, in a variety of industries. Throughout his career, he has been highly numbers-oriented, focusing on budgetary and fiscal matters and on building business value. We believe that Mr. Esses's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

Dr. Jay M. Eastman has been one of our directors since October 1993. From November 1991 to December 2011, Dr. Eastman served as President and Chief Executive Officer of Lucid, Inc., a public company that is developing laser technology applications for medical diagnosis and treatment; since December 2011, Dr. Eastman has served as a director and Chief Science Officer of Lucid. Dr. Eastman served as Senior Vice President of Strategic Planning of PSCX from December 1995 through October 1997. Dr. Eastman is also a director of Dimension Technologies, Inc., a developer and manufacturer of 3D displays for computer and video displays. From 1981 until 1983, Dr. Eastman was the Director of the University of Rochester's Laboratory for Laser Energetics, where he was a member of the staff from 1975 to 1981. Dr. Eastman holds a B.S. and a Ph.D. in Optics from the University of Rochester in New York.

Dr. Eastman brings to our Board the unique perspective of a trained scientist who has also been deeply involved in the business world. Since many of our company's products are of a "high-tech" nature, Dr. Eastman's scientific background is extremely valuable to the Board. Additionally, Dr. Eastman brings to the Board his experiences as President and Chief Executive Officer of a high-tech company, as well as his experience as a director of other public companies. We believe that Dr. Eastman's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

Seymour Jones has been one of our directors since August 2005. Mr. Jones has been a clinical professor of accounting at New York University Stern School of Business since September 1993. Professor Jones teaches courses in accounting, tax, forensic accounting and legal aspects of entrepreneurism. He is also the Associate Director of Ross Institute of Accounting Research at Stern School of Business. His primary research areas include audit committees, auditing, entrepreneurship, financial reporting, and fraud. Professor Jones is the principal author of numerous books including *Conflict of Interest*, *The Coopers & Lybrand Guide to Growing Your Business*, *The Emerging Business* and *The Bankers Guide to Audit Reports and Financial Statements*. From April 1974 to September 1995, Mr. Jones was a senior partner of the accounting firm of Coopers & Lybrand, a legacy firm of PricewaterhouseCoopers LLP ("PwC"). Professor Jones is a certified public accountant in New York State. Professor Jones received a B.A. in economics from City College, City University of New York, and an M.B.A. from NYU Stern.

Mr. Jones brings many years of experience as an audit partner at PwC with extensive financial accounting knowledge that is critical to our board of directors. Mr. Jones's experience with accounting principles, financial reporting rules and regulations, evaluating financial results and generally overseeing the financial reporting process of large public companies from an independent auditor's perspective and as a professor of accounting makes him an invaluable asset to our board of directors. We believe that Mr. Jones's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

Michael E. Marrus has been one of our directors since October 2007. With 25 years of experience as an investment banker, Mr. Marrus has most recently been a Senior Managing Director at Dominick and Dominick and a Managing Director of Merriman Capital, Inc., a financial services firm focused on growth companies. From 1998 to 2009, he was a Managing Director of C.E. Unterberg, Towbin & Co., an investment banking firm that was acquired by Collins Stewart plc. Prior to joining Unterberg, Towbin, Mr. Marrus was a Principal and founding member of Fieldstone Private Capital Group, an investment banking firm specializing in corporate, project and structured finance. Previously, he was employed at Bankers Trust Company, initially in the Private Equity and Merchant Banking Groups and subsequently in BT Securities, the securities affiliate of Bankers Trust. Mr. Marrus has an A.B. from Brown University and an M.B.A. from the Graduate School of Business, University of Chicago.

Mr. Marrus has been involved in mergers and acquisitions as an investment banker and has experience in company valuation in a wide range of industries, a critical skill set for us. We believe that Mr. Marrus's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

Arthur S. Leibowitz has been one of our directors since June 2009. Mr. Leibowitz is a lecturer at Adelphi University School of Business where he teaches courses in accounting to both graduate and undergraduate students. Before joining Adelphi University, Mr. Leibowitz was an audit and business assurance partner at PwC. During his twenty-seven years at PwC, Mr. Leibowitz served in a national leadership role for PwC's retail industry group and was the portfolio audit partner for one of PwC's leading private equity firms. Mr. Leibowitz is a certified public accountant in New York State and received a B.S. in accounting from Brooklyn College in New York.

Mr. Leibowitz brings many years of experience as an audit and business assurance partner at PwC with extensive financial accounting knowledge that is critical to our board of directors. His skills are a vital asset to our board of directors at a time when accurate and transparent accounting, a sound financial footing and exemplary governance practices are essential. We believe that Mr. Leibowitz's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

Thomas J. Paup has been our Vice President – Finance since December 2005 and our Chief Financial Officer since February 2006; in May 2013, Mr. Paup was promoted to Senior Vice President. Mr. Paup is currently also a Finance Lecturer at Eastern Michigan University. Mr. Paup was an Affiliated Partner with McMillan|Doolittle LLP from March 2002 until accepting this position with us, and prior thereto, he was an Executive in Residence and Finance Instructor at DePaul University's Kellstadt Graduate School of Business. Prior to his teaching experience, Mr. Paup spent over 25 years in the retail industry. Most recently, between 1997 and 2000, Mr. Paup was the Executive Vice President and Chief Financial Officer and member of the Board of Directors of Montgomery Ward and Company. Mr. Paup brings a broad background of strategic and operational management experiences from the department store industry, where he served as CFO of Lord & Taylor and Kaufmann's and Controller of Bloomingdale's and Robinson-May. Mr. Paup holds an MBA in Finance and a BBS from Eastern Michigan University.

Board Leadership Structure

Until this year, we had chosen to combine the positions of Chairman of the Board and Chief Executive Officer; however, beginning with Mr. Ehrlich's upcoming retirement from the position of Chief Executive Officer in October 2014, we intend to divide these responsibilities. We will retain Mr. Ehrlich as Chairman, and Mr. Esses will become our Chief Executive Officer.

Our independent directors have not chosen to formally designate one of their number as lead independent director.

Committees of the Board of Directors

Our board of directors has an Audit Committee, a Compensation Committee, a Nominating Committee and an Executive and Finance Committee.

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Created in December 1993, the purpose of the Audit Committee is to review with management and our independent auditors the scope and results of the annual audit, the nature of any other services provided by the independent auditors, changes in the accounting principles applied to the presentation of our financial statements, and any comments by the independent auditors on our policies and procedures with respect to internal accounting, auditing and financial controls. The Audit Committee was established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. In addition, the Audit Committee is charged with the responsibility for making decisions on the engagement of independent auditors. As required by law, the Audit Committee operates pursuant to a charter, available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html. The Audit Committee consists of Prof. Jones (Chair) and Messrs. Leibowitz and Marrus. We have determined that each of Prof. Jones and Mr. Leibowitz qualifies as an "audit committee financial expert" under applicable SEC and Nasdaq regulations. Prof. Jones and Mr. Leibowitz, as well as all the other members of the Audit Committee, are "independent," as independence is defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards and under Item 7(d)(3)(iv) of Schedule 14A of the proxy rules under the Exchange Act.

The Compensation Committee, also created in December 1993, recommends annual compensation arrangements for the Chief Executive Officer and Chief Financial Officer and reviews annual compensation arrangements for all officers and significant employees. The Compensation Committee operates pursuant to a charter, available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html. The Compensation Committee consists of Dr. Eastman (Chair) and Prof. Jones and Mr. Marrus, all of whom are independent non-employee directors.

The Executive and Finance Committee, created in July 2001, exercises the powers of the Board during the intervals between meetings of the Board, in the management of the property, business and affairs of the Company (except with respect to certain extraordinary transactions). The Executive and Finance Committee consists of Messrs. Ehrlich (Chair), Esses and Marrus.

The Nominating Committee, created in March 2003, identifies and proposes candidates to serve as members of the Board of Directors. Proposed nominees for membership on the Board of Directors submitted in writing by stockholders to the Secretary of the Company will be brought to the attention of the Nominating Committee. The Nominating Committee consists of Prof. Jones (Chair), Dr. Eastman and Mr. Leibowitz, all of whom are "independent," as independence is defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards and under Item 7(d)(3)(iv) of Schedule 14A of the proxy rules under the Exchange Act. The Nominating Committee operates under a formal charter that governs its duties. The Nominating Committee's charter is publicly available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html.

Code of Ethics

We have adopted a Code of Ethics, as required by Nasdaq listing standards and the rules of the SEC, that applies to our principal executive officer, our principal financial officer and our principal accounting officer. The Code of Ethics is publicly available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html. If we make substantive amendments to the Code of Ethics or grant any waiver, including any implicit waiver, that applies to anyone subject to the Code of Ethics, we will disclose the nature of such amendment or waiver on the website or in a report on Form 8-K in accordance with applicable Nasdaq and SEC rules.

Code of Conduct

We have adopted a general Code of Conduct, as required by Nasdaq listing standards and the rules of the SEC, that applies to all of our employees. The Code of Conduct is publicly available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html.

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Whistleblower Policy

We have adopted a Whistleblower Policy, as required by Nasdaq listing standards, in order to ensure compliance with the provisions of the Sarbanes-Oxley Act of 2002. The Whistleblower Policy is publicly available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html. Employees with complaints about our compliance with applicable legal and regulatory requirements relating to accounting, auditing and internal control matters may submit their complaints in person, by mail or other written communication or by telephone to our Complaint Administrator. The Complaint Administrator can be contacted anonymously, by submitting the form located on our corporate website at http://arotech.com/compro/complaint.html. Complaints sent in this manner will automatically be stripped of all computer-encoded information identifying the originating e-mail address, and will then automatically be forwarded to the Complaint Administrator's regular e-mail address at Arotech.

Director Compensation

Non-employee members of our Board of Directors are entitled to a cash retainer in 2012 of $3,500 (plus expenses) per quarter, plus $500 per quarter for each committee on which such outside directors serve. (In 2011, the Directors were paid a cash retainer of $7,000 per quarter but voluntarily accepted a reduced retainer in 2012 as an expense control measure.) The Chairman of the Audit Committee receives an additional retainer of $1,500 per quarter, and the Chairman of the Compensation Committee receives an additional retainer of $1,000 per quarter. No per-meeting fees are paid. In addition, we have adopted a Non-Employee Director Equity Compensation Plan, pursuant to which non-employee directors receive an initial grant of a number of restricted shares having a fair market value on the date of grant equal to $25,000 upon their election as a director, and an annual grant on March 31 of each year of a number of restricted shares having a fair market value on the date of grant equal to $15,000. Each grant of restricted stock shall become free of restrictions in three equal installments on each of the first, second and third anniversaries of the grant, unless the director resigns from the Board prior to such vesting. Furthermore, all restrictions lapse prior to the consummation of a merger or consolidation involving us, our liquidation or dissolution, any sale of substantially all of our assets or any other transaction or series of related transactions as a result of which a single person or several persons acting in concert own a majority of our then-outstanding common stock.

The following table shows the compensation earned or received by each of our non-officer directors for the year ended December 31, 2013:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash	Stock Awards Granted 2013	Total	Stock Awards Vested[1] 2013
Dr. Jay M. Eastman	$ 20,000	$ 15,000	$ 35,000	$ 12,244(2)
Edward J. Borey[8]	$ 18,000	$ 15,000	$ 33,000	$ 12,244(3)
Seymour Jones	$ 22,000	$ 15,000	$ 37,000	$ 12,244(4)
Elliot Sloyer[8]	$ 20,000	$ 15,000	$ 35,000	$ 12,244(5)
Michael E. Marrus	$ 20,000	$ 15,000	$ 35,000	$ 12,244(6)
Arthur S. Leibowitz	$ 16,000	$ 15,000	$ 31,000	$ 12,244(7)

(1) This column reflects the 2013 compensation expense for stock based awards for the year ended December 31, 2013.
(2) As of December 31, 2013, Dr. Eastman held 24,566 unvested restricted shares of our common stock.
(3) As of December 31, 2013, Mr. Borey held no unvested restricted shares of our common stock.
(4) As of December 31, 2013, Prof. Jones held 24,566 unvested restricted shares of our common stock.
(5) As of December 31, 2013, Mr. Sloyer held no unvested restricted shares of our common stock.
(6) As of December 31, 2013, Mr. Marrus held 24,566 unvested restricted shares of our common stock.
(7) As of December 31, 2013, Mr. Leibowitz held 24,566 unvested restricted shares of our common stock.
(8) This individual retired as a director effective November 12, 2013.

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Significant Employees

Our significant employees as of February 28, 2014, and their ages as of December 31, 2013, are as follows:

Name	Age	Position
Dean Krutty	48	President, Training and Simulation Division
Ronen Badichi	48	President, Battery and Power Systems Division
Yaakov Har-Oz	56	Senior Vice President, General Counsel and Secretary
Norman E. Johnson	61	Corporate Controller, Chief Accounting Officer

Dean Krutty became President of the Simulation Division in January 2005, after having spent the prior thirteen years as a member of the FAAC management team. He began his career at FAAC as an electrical engineer in FAAC's part task trainer division and most recently served as FAAC's Director of Military Operations. He also has significant experience managing programs in the training and simulation industry. Mr. Krutty holds a B.S. in electrical engineering from the Michigan State University.

Ronen Badichi became the General Manager of Epsilor Electronic Industries in May 2005 and the President of our Battery Division in December 2007. Prior to joining Epsilor, Mr. Badichi served since 1999 as the General Manager of Maoz Industries, a high end supplier of displays to the aviation industry. Prior thereto, Mr. Badichi was a project manager at BAE Systems and served as the F-16 Avionics Integration manager in the Israeli Air Force, with the rank of Captain. Mr. Badichi holds a B.Sc. in Physics and Electro-Optic Engineering from the Lev Institute of Technology in Jerusalem.

Yaakov Har-Oz has served as our Vice President and General Counsel since October 2000 and as our corporate Secretary since December 2000; in December 2005 Mr. Har-Oz was promoted to Senior Vice President. From 1994 until October 2000, Mr. Har-Oz was a partner in the Jerusalem law firm of Ben-Ze'ev, Hacohen & Co. Prior to moving to Israel in 1993, he was an administrative law judge and in private law practice in New York. Mr. Har-Oz holds a B.A. from Brandeis University in Waltham, Massachusetts and a J.D. from Vanderbilt Law School (where he was an editor of the law review) in Nashville, Tennessee. He is a member of the New York bar and the Israel Chamber of Advocates.

Norman E. Johnson has served as our Controller and as our Chief Accounting Officer since August 2006. Prior to joining Arotech, Mr. Johnson was the Corporate Controller with Catuity Inc., a Nasdaq-listed provider of loyalty and gift card solutions. Prior to Catuity, he was with the McCoig Group, a Detroit based holding company, and from March 2000 to August 2004 he was the Corporate Controller of Learning Care Group Inc., a $250 million Nasdaq-listed provider of child care and educational services. Mr. Johnson holds a B.S. in Accounting from Central Michigan University in Mt. Pleasant, Michigan.

Section 16(a) Beneficial Ownership Reporting Compliance

Under the securities laws of the United States, our directors, certain of our officers and any persons holding more than ten percent of our common stock are required to report their ownership of our common stock and any changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and we are required to report any failure to file by these dates during 2013. We are not aware of any instances during 2013, not previously disclosed by us, where such "reporting persons" failed to file the required reports on or before the specified dates.

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ITEM 11. EXECUTIVE COMPENSATION

Cash and Other Compensation

Summary Compensation Table

The following table, which should be read in conjunction with the explanations provided below, shows the compensation that we paid (or accrued) to our executive officers during the fiscal years ended December 31, 2013 and 2012:

SUMMARY COMPENSATION TABLE[(1)]

Name and Principal Position	Year	Salary	Bonus	Stock Awards Granted(2)	All Other Compensation	Total
Robert S. Ehrlich	2013	$ 444,356	$ 379,900	$ 365,000	$ 135,423(3)	$ 1,321,679
Chairman, Chief Executive Officer and a director	2012	$ 431,910	$ 120,533	$ 230,000	$ 90,361(4)	$ 872,804
Thomas J. Paup	2013	$ 201,400	$ 100,500	$ 273,750	$ –(5)	$ 575,650
Senior Vice President – Finance and Chief Financial Officer	2012	$ 175,000	$ 68,805	$ 72,000	$ (3,137)(5)	$ 312,668
Steven Esses	2013	$ 273,437(6)	$ 205,400	$ 273,750	$ 398,878(7)	$ 1,151,465
President and a director	2012	$ 232,566(8)	$ 145,200	$ 172,500	$ 386,851(9)	$ 903,279

(1) We paid the amounts reported for each named executive officer in U.S. dollars and/or New Israeli Shekels (NIS). We have translated amounts paid in NIS into U.S. dollars at the exchange rate of NIS into U.S. dollars at the time of payment or accrual, except that certain items are pursuant to corporate policy paid at a set exchange rate that may be higher than the actual exchange rate on the date of payment. The difference, which was a positive number in 2012 and 2013, has been reported under "Salary." The exchange rate differences for Mr. Ehrlich were $88,797 and $62,843 for 2013 and 2012, respectively. The exchange rate differences for Mr. Esses were $54,642 and $33,838 for 2013 and 2012, respectively.

(2) Reflects the value of awards of restricted stock or restricted stock units granted to our executive officers based on the compensation cost of their stock-based awards – see Note 13.c. of the Notes to Consolidated Financial Statements. The number of shares of restricted stock or restricted stock units received by our executive officers pursuant to such awards in 2013, vesting entirely after one (dependent 33% on tenure and 67% on performance), was as follows: Mr. Ehrlich, 100,000; Mr. Esses, 75,000; Mr. Paup, 75,000. None of these shares came up for vesting in 2013. The number of shares of restricted stock or restricted stock units received by our executive officers pursuant to such awards in 2012, vesting in equal thirds over three years (dependent entirely on tenure), was as follows: Mr. Ehrlich, 100,000; Mr. Esses, 75,000. One-third of these shares vested in 2013. The number of shares of restricted stock or restricted stock units received by our executive officers pursuant to such awards in 2011, vesting one-half after one year (dependent 25% on tenure and 75% on performance) and one-half after two years (dependent 33% on tenure and 67% on performance), was as follows: Mr. Ehrlich, 200,000; Mr. Esses, 150,000; Mr. Paup, 120,000. The second tranche of these shares (a total of 235,000 shares) came up for vesting in December 2012, and of the 67% dependent on performance, 156,667 shares – or 100% of the total – vested.

(3) Of this amount, $91,834 represents the change in our accrual for severance pay that will be payable to Mr. Ehrlich upon his leaving our employ other than if he is terminated for cause, such as a breach of trust; $32,205 represents the change of our accrual for vacation pay; $3,578 represents tax reimbursements and $7,806 represents other normal or mandated Israeli benefits.

(4) Of this amount, $(31,467) (the obligation declined due to exchange rate differences) represents the change in our accrual for severance pay that will be payable to Mr. Ehrlich upon his leaving our employ other than if he is terminated for cause, such as a breach of trust; $30,720 represents the change of our accrual for vacation pay; $30,131 represents tax reimbursements and $60,977 represents other normal or mandated Israeli benefits.

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(5) Represents the increase (decrease) in our accrual for Mr. Paup for accrued but unused vacation days.

(6) Does not include approximately $148,723 that we paid in consulting fees to Sampen Corporation, a New York corporation owned by members of Steven Esses's immediate family, from which Mr. Esses receives a salary. See "Item 13. Certain Relationships and Related Transactions – Consulting Agreement with Sampen Corporation," below.

(7) Of this amount, $38,745represents payments to Israeli pension and education funds; $38,856 represents the change in our accrual for severance pay that will be payable to Mr. Esses upon his leaving our employ other than if he is terminated for cause, such as a breach of trust; $28,680 represents sick pay redemption; $214,559 represents the change in sick pay accruals; $8,687 represents the change of our accrual for vacation pay; $750 represents tax reimbursements; and $68,601 represents other normal or mandated Israeli benefits.

(8) Does not include approximately $186,000 that we paid in consulting fees to Sampen Corporation, a New York corporation owned by members of Steven Esses's immediate family, from which Mr. Esses receives a salary. See "Item 13. Certain Relationships and Related Transactions – Consulting Agreement with Sampen Corporation," below.

(9) Of this amount, $33,102 represents payments to Israeli pension and education funds; $232,066 represents the change in our accrual for severance pay that will be payable to Mr. Esses upon his leaving our employ other than if he is terminated for cause, such as a breach of trust; $26,856 represents sick pay redemption; $2,227 represents the change of our accrual for vacation pay; $645 represents tax reimbursements; and $58,117 represents other normal or mandated Israeli benefits.

Executive Loans

In 2000, we extended a loan to one of our Named Executive Officers. This loan is summarized in the following table, and is further described under "Item 13. Certain Relationships and Related Transactions – Officer Loan," below.

Name of Borrower	Date of Loan	Original Principal Amount of Loan	Amount Outstanding as of 12/31/2013	Terms of Loan
Robert S. Ehrlich	02/09/2000	$ 329,163	$ 452,995	Twenty-five-year non-recourse loan to purchase our stock, secured by the shares of stock purchased.

Plan-Based Awards

Grants of Restricted Stock or Restricted Stock Units

During 2013, the Compensation Committee approved the grant of a total of 250,000 shares of restricted stock or restricted stock units to our executive officers (in connection with their amended and restated employment agreements). The table below sets forth each equity award granted to our executive officers during the year ended December 31, 2013.

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	All Other Stock Awards: Number of Shares of Stocks	Grant Date Fair Value of Stock Awards (1)
Robert S. Ehrlich(2)	12/23/2013	100,000	$ 365,000
Steven Esses(2)	12/23/2013	75,000	$ 273,750
Thomas J. Paup(2)	12/23/2013	75,000	$ 273,750

(1)Reflects the aggregate market value of the shares of restricted stock or restricted stock units determined based on the closing price of our common stock on the Nasdaq Global Market on the date of grant.

(2)The restricted shares or restricted stock units vest on December 31, 2014 (dependent 33% on tenure and 67% on performance).

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Stock Option Exercises and Vesting of Restricted Stock Awards

Our executive officers did not exercise any stock options during 2013. The following table presents awards of restricted stock or restricted stock units that vested during the year ended December 31, 2013.

STOCK VESTED

Name	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting[1] ($)
Robert S. Ehrlich	133,334	$ 465,336
Steven Esses	100,000	$ 349,000
Thomas J. Paup	60,000	$ 209,400

[1] Reflects the aggregate market value of the shares of restricted stock or restricted stock units determined based on a per share price of $3.49, the closing price of our common stock on the Nasdaq Global Market on December 31, 2013, which was the last trading day of 2013.

Outstanding Equity Awards at Fiscal Year-End

The table below sets forth information for our executive officers with respect to option, restricted stock and restricted stock unit values at the end of the fiscal year ended December 31, 2013.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Stock Awards			
			Equity Incentive Plan Awards	
Name	Number of Shares that Have Not Vested (#)	Market Value of Shares that Have Not Vested(2) ($)	Number of Unearned Shares that Have Not Vested (#)	Market Value of Unearned Shares that Have Not Vested(1) ($)
Robert S. Ehrlich	66,666	$ 232,664	133,334	$ 465,336
Steven Esses	50,000	$ 174,500	100,000	$ 349,000
Thomas J. Paup	–	$ –	60,000	$ 209,400

[1] Reflects the aggregate market value of the shares of restricted stock or restricted stock units determined based on a per share price of $3.49, the closing price of our common stock on the Nasdaq Global Market on December 31, 2013, which was the last trading day of 2013.

Employment Contracts

Robert S. Ehrlich

Mr. Ehrlich is party to an amended and restated employment agreement with us executed in May 2013 and amended in November 2013. The term of this employment agreement expires on December 31, 2015. The employment agreement provides that Mr. Ehrlich will serve as our Chairman of the Board and Chief Executive Officer until September 30, 2014, and thereafter as our Chairman of the Board.

The employment agreement, as amended, provides for a monthly base salary of NIS 144,554 (approximately $41,465 per month based on the exchange rate on December 31, 2013), as adjusted annually for Israeli inflation (but with no retroactive inflation adjustment for 2013 in respect of inflation during 2012). Additionally, the board may at its discretion raise Mr. Ehrlich's base salary.

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The employment agreement provides that we will pay an annual bonus, on a sliding scale, in an amount equal to 25% of Mr. Ehrlich's annual base salary then in effect if the results we actually attain for the year in question are 100% or more of the amount we budgeted at the beginning of the year, up to a maximum of 75% of his annual base salary then in effect if the results we actually attain for the year in question are 120% or more of the amount we budgeted at the beginning of the year. Budget targets in the past have included combinations of revenues, EBITDA, backlog, and/or other factors. Mr. Ehrlich's previous employment agreement had a similar bonus provision (but with a higher (35%) threshold bonus). For 2012 and 2013, the Compensation Committee choose financial targets for determining eligibility for the above-referenced cash incentive bonus that are determined in part on the achievement of set budgetary forecast targets for adjusted EBITDA, a non-GAAP measurement, and in part on the achievement of other targets – in the case of 2012, targets for revenues, and in the case of 2013, targets for revenues and adjusted EBITDA. The Board's adjusted budget for 2013 for continuing operations called for adjusted EBITDA of $3.1 million with revenues of at least $87.7 million. Actual results were EBITDA of $6.5 million with revenues of $88.6 million. New bonus targets will be chosen for 2014 based upon future budgetary forecasts.

The employment agreement also contains various benefits customary in Israel for senior executives, tax and financial planning expenses and an automobile, and contains confidentiality and non-competition covenants. Pursuant to the employment agreements, we granted Mr. Ehrlich demand and "piggyback" registration rights covering shares of our common stock held by him.

We can terminate Mr. Ehrlich's employment agreement in the event of death or disability or for "Cause" (defined as conviction of certain crimes, willful failure to carry out directives of our board of directors or gross negligence or willful misconduct). Mr. Ehrlich has the right to terminate his employment upon a change in our control or for "Good Reason," which is defined to include adverse changes in employment status or compensation, our insolvency, material breaches and certain other events.

Upon termination of employment, the employment agreement provides for payment of all accrued and unpaid compensation and benefits (including under most circumstances Israeli statutory severance, described under "Item 1. Business – Employees," above), and (unless we have terminated the agreement for Cause or Mr. Ehrlich has terminated the agreement without Good Reason) bonuses (to the extent earned) due for the year in which employment is terminated. Furthermore, in respect of any termination by us other than termination for Cause, all outstanding options and all restricted shares will be fully vested. Restricted shares that have vested prior to the date of termination are not forfeited under any circumstances, including termination for Cause.

The employment agreement further provides that Mr. Ehrlich's severance payment of $1,625,400, which has been fully earned, shall be paid to him as follows:

(i) By immediate transfer to Mr. Ehrlich of the shares of our common stock issued to him (but since held by us) in April 2009 (described below), which we and Mr. Ehrlich then agreed would be valued at $240,000, irrespective of any changes in the market value of the shares.

(ii) By immediate transfer to Mr. Ehrlich of $774,377 in cash, which was transferred to Mr. Ehrlich in 2013 from Mr. Ehrlich's Rabbi Trust established by trust agreement dated December 23, 2003.

(iii) The remaining $611,023 of the severance payment is being paid to Mr. Ehrlich in 30 equal monthly installments of $20,367.43 each on or before the last day of each calendar month by wire transfer to an account specified in writing by Mr. Ehrlich, beginning with the calendar month of May 2013 through and including the calendar month of October 2015.

A table describing the payments that would have been due to Mr. Ehrlich under his employment agreement had Mr. Ehrlich's employment with us been terminated at the end of 2013 under various circumstances (pursuant to the terms of his then-current employment agreement) appears under "Potential Payments and Benefits upon Termination of Employment – Robert S. Ehrlich," below.

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In April 2009, we, with the agreement of Mr. Ehrlich, funded a portion of his severance security by means of issuing to him, in trust, restricted stock having a value (based on the closing price of our stock on the Nasdaq Stock Market on the date on which Mr. Ehrlich and our board of directors agreed on this arrangement) of $240,000, a total of 328,767 shares. We agreed with Mr. Ehrlich that the economic risk of gain or loss on these shares is to be borne by Mr. Ehrlich. Should Mr. Ehrlich leave our employ under circumstances in which he is not entitled to his severance package (primarily, termination for Cause as defined in his employment agreement), this number of shares would be returned to us for cancellation.

Steven Esses

Mr. Esses is party to an amended and restated employment agreement with EFL and guaranteed by us executed in May 2013 and amended in November 2013. The term of this employment agreement expires on December 31, 2015. The employment agreement provides that Mr. Esses will serve as our President until September 30, 2014, and thereafter as our President and Chief Executive Officer.

The employment agreement as amended provides for a monthly base salary of NIS 97,115 (approximately $27,858 at the rate of exchange in effect on March 15, 2014), as adjusted for Israeli inflation (but with no retroactive inflation adjustment for 2013 in respect of inflation during 2012). Additionally, the board may at its discretion raise Mr. Esses’s base salary.

The Esses Employment Agreement provides that if the results we actually attain in a given year are at least 100% of the amount we budgeted at the beginning of the year, we will pay a bonus, on a sliding scale, in an amount equal to a minimum of 25% of Mr. Esses’s annual base salary then in effect, up to a maximum of 75% of his annual base salary then in effect if the results we actually attain for the year in question are 120% or more of the amount we budgeted at the beginning of the year. Budget targets in the past have included combinations of revenues, EBITDA, backlog, and/or other factors. Mr. Esses’s previous employment agreement had a similar bonus provision (but with a lower (20%) threshold bonus). For 2012 and 2013, the Compensation Committee choose financial targets for determining eligibility for the above-referenced cash incentive bonus that are determined in part on the achievement of set budgetary forecast targets for adjusted EBITDA, a non-GAAP measurement, and in part on the achievement of other targets – in the case of 2012, targets for revenues, and in the case of 2013, targets for revenues and adjusted EBITDA. The Board’s adjusted budget for 2013 for continuing operations called for adjusted EBITDA of $3.1 million with revenues of at least $87.7 million. Actual results were EBITDA of $6.5 million with revenues of $88.6 million. New bonus targets will be chosen for 2014 based upon future budgetary forecasts.

The employment agreement also contains various benefits customary in Israel for senior executives, tax and financial planning expenses and an automobile, and contains confidentiality and non-competition covenants. Pursuant to the employment agreements, we granted Mr. Esses demand and “piggyback” registration rights covering shares of our common stock held by him.

We can terminate Mr. Esses’s employment agreement in the event of death or disability or for “Cause” (defined as conviction of certain crimes, willful failure to carry out directives of our board of directors or gross negligence or willful misconduct). Mr. Esses has the right to terminate his employment upon a change in our control or for “Good Reason,” which is defined to include adverse changes in employment status or compensation, our insolvency, material breaches and certain other events. Additionally, Mr. Esses may retire (after age 65), retire early (after age 55) or terminate his agreement for any reason upon 150 days’ notice.

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Upon termination of employment, the employment agreement provides for payment of all accrued and unpaid compensation (including under most circumstances Israeli statutory severance, described under “Item 1. Business – Employees,” above), and (unless we have terminated the agreement for Cause or Mr. Esses has terminated the agreement without Good Reason and without giving us 150 days’ notice of termination) bonuses (to the extent earned) due for the year in which employment is terminated (in an amount of not less than 20% of base salary) and severance pay equal to the greater of (i) twenty-four (24) times monthly salary, and (ii) NIS 3,144,000 (approximately $902,500 at the rate of exchange in effect on March 15, 2014). Furthermore, Mr. Esses will receive, in respect of all benefits, an additional sum in the amount of (i) $75,000, in the case of termination due to disability, good reason, death, or non-renewal, or (ii) $150,000, in the case of termination due to early retirement, retirement, change of control or change of location. Additionally, in respect of any termination due to a change of control or a change in the primary location from which Mr. Esses shall have conducted his business activities during the 60 days prior to such change, all outstanding options and all restricted shares will be fully vested. Restricted shares that have vested prior to the date of termination are not forfeited under any circumstances, including termination for Cause.

A table describing the payments that would have been due to Mr. Esses under his employment agreement had Mr. Esses’s employment with us been terminated at the end of 2013 under various circumstances (pursuant to the terms of his then-current employment agreement) appears under “Potential Payments and Benefits upon Termination of Employment – Steven Esses,” below.

In April 2009, we, with the agreement of Mr. Esses, funded a portion of his severance security by means of issuing to him, in trust, restricted stock having a value (based on the closing price of our stock on the Nasdaq Stock Market on the date on which Mr. Esses and our board of directors agreed on this arrangement) of $200,000, a total of 273,973 shares. We agreed with Mr. Esses that the economic risk of gain or loss on these shares is to be borne by Mr. Esses. Should Mr. Esses leave our employ under circumstances in which he is not entitled to his severance package (primarily, termination for Cause as defined in his employment agreement), these shares would be returned to us for cancellation.

See also “Item 13. Certain Relationships and Related Transactions – Consulting Agreement with Sampen Corporation,” below.

Thomas J. Paup

Mr. Paup is party to an amended and restated employment agreement with us executed in May 2013 and amended in January 2014, having a term running until December 31, 2015. The employment agreement provides that Mr. Paup will serve as our Senior Vice President – Finance and Chief Financial Officer.

Under the terms of his employment agreement as amended, Mr. Paup is entitled to receive a base salary of $225,000, as adjusted annually for inflation (but with no retroactive inflation adjustment for 2013 in respect of inflation during 2012).

The employment agreement provides that if the results we actually attain in a given year are at least 90% of the amount we budgeted at the beginning of the year, we will pay a bonus, on a sliding scale, in an amount equal to a minimum of 16.5% of Mr. Paup’s annual base salary then in effect, up to a maximum of 50% of his annual base salary then in effect if the results we actually attain for the year in question are 120% or more of the amount we budgeted at the beginning of the year. Mr. Paup’s previous employment agreement had a similar bonus provision (but with a higher (20%) threshold bonus). For 2012 and 2013, the Compensation Committee choose financial targets for determining eligibility for the above-referenced cash incentive bonus that are determined in part on the achievement of set budgetary forecast targets for adjusted EBITDA, a non-GAAP measurement, and in part on the achievement of other targets – in the case of 2012, targets for revenues, and in the case of 2013, targets for revenues and adjusted EBITDA. The Board’s adjusted budget for 2013 for continuing operations called for adjusted EBITDA of $3.1 million with revenues of at least $87.7 million. Actual results were EBITDA of $6.5 million with revenues of $88.6 million. New bonus targets will be chosen for 2014 based upon future budgetary forecasts.

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Mr. Paup's employment agreement provides that if we terminate his agreement other than for cause (defined as conviction of certain crimes, willful failure to carry out directives of our board of directors or gross negligence or willful misconduct), we must pay Mr. Paup severance in an amount of twelve times his monthly salary. Restricted shares that have vested prior to the date of termination are not forfeited under any circumstances, including termination for Cause.

A table describing the payments that would have been due to Mr. Paup under his employment agreement had Mr. Paup's employment with us been terminated at the end of 2013 under various circumstances (pursuant to the terms of his then-current employment agreement) appears under "Potential Payments and Benefits upon Termination of Employment – Thomas J. Paup," below.

Others

Other employees have entered into individual employment agreements with us. These agreements govern the basic terms of the individual's employment, such as salary, vacation, overtime pay, severance arrangements and pension plans. Subject to Israeli law, which restricts a company's right to relocate an employee to a work site farther than sixty kilometers from his or her regular work site, we have retained the right to transfer certain employees to other locations and/or positions provided that such transfers do not result in a decrease in salary or benefits. All of these agreements also contain provisions governing the confidentiality of information and ownership of intellectual property learned or created during the course of the employee's tenure with us. Under the terms of these provisions, employees must keep confidential all information regarding our operations (other than information which is already publicly available) received or learned by the employee during the course of employment. This provision remains in force for five years after the employee has left our service. Further, intellectual property created during the course of the employment relationship belongs to us.

A number of the individual employment agreements, but not all, contain non-competition provisions which restrict the employee's rights to compete against us or work for an enterprise which competes against us. Such provisions generally remain in force for a period of two years after the employee has left our service.

Under the laws of Israel, an employee of ours who has been dismissed from service, died in service, retired from service upon attaining retirement age, or left due to poor health, maternity or certain other reasons, is entitled to severance pay at the rate of one month's salary for each year of service, *pro rata* for partial years of service. We currently fund this obligation by making monthly payments to approved private provident funds and by its accrual for severance pay in the consolidated financial statements. See Note 2.q. **of the Notes to the Consolidated Financial Statements.**

Potential Payments and Benefits upon Termination of Employment

This section sets forth in tabular form quantitative disclosure regarding estimated payments and other benefits that would have been received by certain of our executive officers if their employment had terminated on December 31, 2013 (the last business day of the fiscal year), pursuant to the terms of their then-current employment agreements.

For a narrative description of the severance and change in control arrangements in the current employment contracts of Messrs. Ehrlich, Esses and Paup, see "– Employment Contracts," above. Each of Messrs. Ehrlich and Esses will be eligible to receive severance payments in excess of accrued but unpaid items only if he signs a general release of claims.

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Robert S. Ehrlich

The following table describes the potential payments and benefits upon employment termination for Robert S. Ehrlich, our Chairman and Chief Executive Officer, pursuant to applicable law and the terms of his then-current employment agreement with us, as if his employment had terminated on December 31, 2013 (the last business day of the fiscal year) under the various scenarios described in the column headings as explained in the footnotes below.

ROBERT S. EHRLICH

Payments and Benefits	Death or Disability[(1)]	Cause[(2)]	Good Reason[(3)]	Other Employee Termination[(4)]
Accrued but unpaid:				
Base salary	$ 32,123	$ 32,123	$ 32,123	$ 32,123
Vacation	142,086	142,086	142,086	142,086
Recuperation pay[(5)]	449	449	449	449
Benefits:				
Continuing education fund[(6)]	2,409	2,409	2,409	2,409
Contractual severance	1,625,400	1,625,400	1,625,400	1,625,400
Statutory severance[(7)]	1,012,182	–	1,012,182	–
TOTAL:	$ 2,814,649	$ 1,802,467	$ 2,814,649	$ 1,802,467

(1) “Disability” is defined in Mr. Ehrlich’s employment agreement as a physical or mental infirmity which impairs Mr. Ehrlich’s ability to substantially perform his duties and which continues for a period of at least 180 consecutive days.

(2) “Cause” is defined in Mr. Ehrlich’s employment agreement as (i) conviction for fraud, crimes of moral turpitude or other conduct which reflects on us in a material and adverse manner; (ii) a willful failure to carry out a material directive of our Board of Directors, *provided* that such directive concerned matters within the scope of Mr. Ehrlich’s duties, would not give Mr. Ehrlich “Good Reason” to terminate his agreement (see footnote 4 below) and was capable of being reasonably and lawfully performed; (iii) conviction in a court of competent jurisdiction for embezzlement of our funds; and (iv) reckless or willful misconduct that is materially harmful to us.

(3) “Good Reason” is defined in Mr. Ehrlich’s employment agreement as (i) a change in Mr. Ehrlich’s status, title, position or responsibilities which, in Mr. Ehrlich’s reasonable judgment, represents a reduction or demotion in his status, title, position or responsibilities as in effect immediately prior thereto (other than the planned change in responsibilities and title resulting from the planned assumption by Steven Esses of the position of Chief Executive Officer in October 2014); (ii) a reduction in Mr. Ehrlich’s base salary; (iii) the failure by us to continue in effect any material compensation or benefit plan in which Mr. Ehrlich is participating; (iv) our insolvency or the filing (by any party, including us) of a petition for our winding-up; (v) any material breach by us of any provision of Mr. Ehrlich’s employment agreement; (vi) any purported termination of Mr. Ehrlich’s employment for cause by us which does not comply with the terms of Mr. Ehrlich’s employment agreement; and (vii) any movement of the location where Mr. Ehrlich is generally to render his services to us from the Jerusalem/Tel Aviv area of Israel.

(4) “Other Employee Termination” means a termination by Mr. Ehrlich of his employment other than for Good Reason.

(5) Pursuant to Israeli law and our customary practice, we pay Mr. Ehrlich in July of each year the equivalent of ten days’ “recuperation pay” at the statutory rate of NIS 371 (approximately $99) per day.

(6) Pursuant to Israeli law, we must contribute an amount equal to 7.5% of Mr. Ehrlich’s base salary to a continuing education fund, up to the permissible tax-exempt salary ceiling according to the income tax regulations in effect from time to time. At December 31, 2013, the ceiling then in effect was NIS 15,712 (approximately $4,209).

(7) Under Israeli law, employees terminated other than for cause receive severance in the amount of one month’s base salary for each year of work, at their salary rate at the date of termination.

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Steven Esses

The following table describes the potential payments and benefits upon employment termination for Steven Esses, our President, pursuant to applicable law and the terms of his then-current employment agreement with us, as if his employment had terminated on December 31, 2013 (the last business day of the fiscal year) under the various scenarios described in the column headings as explained in the footnotes below.

See also "Item 13. Certain Relationships and Related Transactions – Consulting Agreement with Sampen Corporation," below.

STEVEN ESSES

Payments and Benefits	Non-Renewal[1]	Death or Disability[2]	Cause[3]	Good Reason[4]	Change of Control[5]	Retirement [6]	Early Retirement [7]	Other Employee Termination [8]
Accrued but unpaid[9]:								
Base salary	$ 21,581	$ 21,581	$ 21,581	$ 21,581	$ 21,581	$ 21,581	$ 21,581	$ 21,581
Vacation	96,901	96,901	96,901	96,901	96,901	96,901	96,901	96,901
Sick leave[10]	222,741	222,741	222,741	222,741	222,741	222,741	222,741	222,741
Recuperation pay[11]	314	314	314	314	314	314	314	314
Benefits:								
Manager's insurance[12]	3,417	3,417	3,417	3,417	3,417	3,417	3,417	3,417
Continuing education fund[13]	1,618	1,618	1,618	1,618	1,618	1,618	1,618	1,618
Contractual severance	1,015,757	1,015,757		1,015,757	1,015,757	1,015,757	1,015,757	
Statutory severance[14]	214,796	214,796		214,796	214,796	214,796	214,796	
Benefits				75,000	150,000	150,000	150,000	
TOTAL:	$ 1,577,125	$ 1,577,125	$ 346,572	$ 1,652,125	$ 1,727,125	$ 1,727,125	$ 1,727,125	$ 346,572

(1) "Non-renewal" is defined in Mr. Esses's employment agreement as a decision, made with written notice of at least 90 days in advance of the effective date of such decision, by either us or Mr. Esses not to renew Mr. Esses's employment for an additional two-year term. Pursuant to the terms of Mr. Esses's employment agreement, in the absence of such notice, Mr. Esses's employment agreement automatically renews.

(2) "Disability" is defined in Mr. Esses's employment agreement as a physical or mental infirmity which impairs Mr. Esses's ability to substantially perform his duties and which continues for a period of at least 180 consecutive days.

(3) "Cause" is defined in Mr. Esses's employment agreement as (i) conviction for fraud, crimes of moral turpitude or other conduct which reflects on us in a material and adverse manner; (ii) a willful failure to carry out a material directive of our Chief Executive Officer, *provided* that such directive concerned matters within the scope of Mr. Esses's duties, would not give Mr. Esses "Good Reason" to terminate his agreement (see footnote 4 below) and was capable of being reasonably and lawfully performed; (iii) conviction in a court of competent jurisdiction for embezzlement of our funds; and (iv) reckless or willful misconduct that is materially harmful to us.

(4) "Good Reason" is defined in Mr. Esses's employment agreement as (i) (a) a change in Mr. Esses's status, title, position or responsibilities which, in Mr. Esses's reasonable judgment, represents a reduction or demotion in his status, title, position or responsibilities as in effect immediately prior thereto, (b) a change in the primary location from which Mr. Esses shall have conducted his business activities during the 60 days prior to such change, (c) a change in the composition of a majority of the Board of directors, or (d) the failure to promote Mr. Esses to the position of President and Chief Executive Officer on or before October 1, 2104; or (ii) a reduction in Mr. Esses's base salary; (iii) the failure by us to continue in effect any material compensation or benefit plan in which Mr. Esses is participating; (iv) our insolvency or the filing (by any party, including us) of a petition for our winding-up; (v) any material breach by us of any provision of Mr.

Esses's employment agreement; and (vi) any purported termination of Mr. Esses's employment for cause by us which does not comply with the terms of Mr. Esses's employment agreement.

(5) Represents additional payment due to Mr. Esses should he terminate his employment under the circumstances set forth in clause (i)(c) of footnote 4 above.

(7) "Retirement" is defined as Mr. Esses terminating his employment with us at age 65 or older on at least 150 days' prior notice.

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(8)"Early Retirement" is defined as Mr. Esses terminating his employment with us at age 55 or older (up to age 65) on at least 150 days' prior notice.

(9)Any termination by Mr. Esses of his employment with us that does not fit into any of the prior categories, including but not limited to Mr. Esses terminating his employment with us, with or without notice, other than at the end of an employment term or renewal thereof, in circumstances that do not fit into any of the prior categories.

(10)Does not include a total of $9,000 in accrued but unpaid consulting fees due at December 31, 2013 to Sampen Corporation, a New York corporation owned by members of Steven Esses's immediate family, from which Mr. Esses receives a salary. See "Item 13. Certain Relationships and Related Transactions – Consulting Agreement with Sampen Corporation," below.

(11)Limited to an aggregate of 30 days.

(12)Pursuant to Israeli law and our customary practice, we pay Mr. Esses in July of each year the equivalent of six days' "recuperation pay" at the statutory rate of NIS 374 (approximately $108) per day.

(13)Payments to managers' insurance, a benefit customarily given to senior executives in Israel, come to a total of 15.83% of base salary, consisting of 8.33% for payments to a fund to secure payment of statutory severance obligations, 5% for pension and 2.5% for disability. The managers' insurance funds reflected in the table do not include the 8.33% payments to a fund to secure payment of statutory severance obligations with respect to amounts paid prior to December 31, 2012, which funds are reflected in the table under the "Statutory severance" heading.

(14)Pursuant to Israeli law, we must contribute an amount equal to 7.5% of Mr. Esses's base salary to a continuing education fund, up to the permissible tax-exempt salary ceiling according to the income tax regulations in effect from time to time. At December 31, 2013, the ceiling then in effect was NIS 15,712 (approximately $4,527). In Mr. Esses's case, we have customarily contributed to his continuing education fund in excess of the tax-exempt ceiling, and then reimbursed Mr. Esses for the tax. The sums in the table reflect this additional contribution and the resultant tax reimbursement.

(15)Under Israeli law, employees terminated other than for cause receive severance in the amount of one month's base salary for each year of work, at their salary rate at the date of termination.

Thomas J. Paup

The following table describes the potential payments and benefits upon employment termination for Thomas J. Paup, our Senior Vice President – Finance and Chief Financial Officer, pursuant to applicable law and the terms of his then-current employment agreement with us, as if his employment had terminated on December 31, 2013 (the last business day of the fiscal year) under the various scenarios described in the column headings as explained in the footnotes below.

THOMAS J. PAUP

Payments and Benefits	Death or Disability(1)	Cause(2)	Non-Renewal(3)	Termination at Will(4)
Accrued but unpaid:				
Base salary	$ 8,392	$ 8,392	$ 8,392	$ 8,392
Vacation	11,619	11,619	11,619	11,619
Contractual severance	–	–	402,800	201,400
TOTAL:	$ 20,011	$ 20,011	$ 422,811	$ 221,411

(1) "Disability" is defined in Mr. Paup's employment agreement as a physical or mental infirmity which impairs Mr. Paup's ability to substantially perform his duties and which continues for a period of at least 180 consecutive days.

(2) "Cause" is defined in Mr. Paup's employment agreement as (i) a breach of trust by Mr. Paup, including, for example, but without limitation, commission of an act of moral turpitude, theft, embezzlement, self-dealing or insider trading; (ii) the unauthorized disclosure by Mr. Paup of confidential information of or relating to us; (iii) a material breach by Mr. Paup of his employment agreement; or (iv) any act of, or omission by, Mr. Paup which, in our reasonable judgment, amounts to a serious failure by Mr. Paup to perform his responsibilities or functions or in the exercise of his authority, which failure, in our reasonable judgment, rises to a level of gross nonfeasance, misfeasance or malfeasance.

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(3) "Non-Renewal" is defined in Mr. Paup's employment agreement as the agreement coming to the end of the Term and not being extended or immediately succeeded by a new substantially similar employment agreement.

(4) "Termination at Will" is defined in Mr. Paup's employment agreement as Mr. Paup terminating his employment with us on written notice of at least 120 days in advance of the effective date of such termination.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information regarding the security ownership, as of February 28, 2014, of those persons owning of record or known by us to own beneficially more than 5% of our common stock and of each of our Named Executive Officers and directors, and the shares of common stock held by all of our directors and executive officers as a group.

Name and Address of Beneficial Owner(1)	Shares Beneficially Owned(2)(3)	Percentage of Total Shares Outstanding(3)
Robert S. Ehrlich	1,401,143(4)	6.9%
Steven Esses	1,002,480(5)	5.0%
Thomas J. Paup	233,596(6)	1.2%
Dr. Jay M. Eastman	74,124(7)	*
Prof. Seymour Jones	74,124(8)	*
Michael E. Marrus	77,414(9)	*
Arthur S. Leibowitz	59,433(10)	*
All of our directors and executive officers as a group (7 persons)	2,922,314(11)	13.1%

* Less than one percent.

(1) The address of each named beneficial owner is in care of Arotech Corporation, 1229 Oak Valley Drive, Ann Arbor, Michigan 48108.

(2) Unless otherwise indicated in these footnotes, each of the persons or entities named in the table has sole voting and sole investment power with respect to all shares shown as beneficially owned by that person, subject to applicable community property laws.

(3) Based on 20,163,163 shares of common stock outstanding as of February 28, 2014. For purposes of determining beneficial ownership of our common stock, owners of options exercisable within sixty days are considered to be the beneficial owners of the shares of common stock for which such securities are exercisable. The percentage ownership of the outstanding common stock reported herein is based on the assumption (expressly required by the applicable rules of the Securities and Exchange Commission) that only the person whose ownership is being reported has exercised his options for shares of common stock.

(4) Consists of 890,612 shares held directly by Mr. Ehrlich, 166,666 shares of unvested restricted stock (the vesting of 66,667 of which is subject to future performance criteria), 328,767 shares held as part of a trust securing the payment of Mr. Ehrlich's severance package pursuant to the terms of our employment agreement with him, 3,571 shares held by Mr. Ehrlich's wife (in which shares Mr. Ehrlich disclaims beneficial ownership), and 11,527 shares held in Mr. Ehrlich's pension plan.

(5) Consists of 603,507 shares held directly by Mr. Esses, 125,000 shares of unvested restricted stock (the vesting of 50,000 of which is subject to future performance criteria), and 273,973 shares held as part of a trust securing the payment of Mr. Esses's severance package pursuant to the terms of our employment agreement with him.

(6) Consists of 233,596 shares held directly by Mr. Paup and does not include 75,000 unvested restricted stock units (the vesting of 50,000 of which is subject to future performance criteria).

(7) Consists of 49,558 shares owned directly by Dr. Eastman and 24,566 shares of unvested restricted stock.

(8) Consists of 49,558 shares owned directly by Prof. Jones and 24,566 shares of unvested restricted stock.

(9) Consists of 52,848 shares owned directly by Mr. Marrus and 24,566 shares of unvested restricted stock.

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(10) Consists of 34,867 shares owned directly by Mr. Leibowitz and 24,566 shares of unvested restricted stock.

(11) Includes 464,930 shares of unvested restricted stock (the vesting of 116,667 of which is subject to future performance criteria), 602,740 shares of restricted stock held as part of trusts securing payment of severance, and does not include Mr. Paup's 75,000 unvested restricted stock units (the vesting of 50,000 of which is subject to future performance criteria).

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information, as of December 31, 2012, with respect to our 2004, 2007 and 2009 equity compensation plans, as well as any other stock options and warrants previously issued by us (including individual compensation arrangements) as compensation for goods and services:

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders[1]	8,960	$ 5.46	3,665,862

(1) For a description of the material features of grants of options and warrants other than options granted under our employee stock option plans, see Note 13.c. of the Notes to the Consolidated Financial Statements.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Officer Loans

On February 9, 2000, Mr. Ehrlich exercised 9,404 stock options. Mr. Ehrlich paid the exercise price of the stock options and certain taxes that we paid on his behalf by giving us a non-recourse promissory note due in 2025 in the amount of $329,163, bearing annual interest at 1% over the then-current federal funds rate announced from time to time by the *Wall Street Journal*, secured by the shares of our common stock acquired through the exercise of the options and certain compensation due to Mr. Ehrlich upon termination. As of December 31, 2013, the aggregate amount outstanding pursuant to this promissory note was $452,995.

Consulting Agreement with Sampen Corporation

We have an amended and restated consulting agreement with Sampen Corporation that we executed in May 2013. Sampen is a New York corporation owned by members of Steven Esses's immediate family, and Mr. Esses is an employee of both the Company and of Sampen. The term of this consulting agreement is until December 31, 2015.

Pursuant to the terms of our agreement with Sampen, Sampen provides one of its employees to us for such employee to serve as (i) until September 30, 2014, our President, and (ii) from October 1, 2014, as our President and Chief Executive Officer. We pay Sampen $8,960

per month, plus an annual bonus, on a sliding scale, in an amount equal to a minimum of 25% of Sampen's annual base compensation then in effect if the results we actually attain for the year in question are 100% or more of the amount we budgeted at the beginning of the year, up to a maximum of 75% of its annual base compensation then in effect if the results we actually attain for the year in question are 120% or more of the amount we budgeted at the beginning of the year. We also pay Sampen, to cover the cost of our use of Sampen's offices as an ancillary New York office and the attendant expenses and insurance costs, an amount equal to 16% of each monthly payment of base compensation.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

In accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the Audit Committee's charter, all audit and audit-related work and all non-audit work performed by our independent accountants, BDO USA, LLP ("BDO"), is approved in advance by the Audit Committee, including the proposed fees for such work. The Audit Committee is informed of each service actually rendered.

- *Audit Fees.* Audit fees billed or expected to be billed to us by BDO for the audit of the financial statements included in our Annual Report on Form 10-K, and reviews of the financial statements included in our Quarterly Reports on Form 10-Q, for the years ended December 31, 2013 and 2012 totaled approximately $343,000 and $362,000, respectively.

- *Audit-Related Fees*. BDO billed or expected to bill us zero and $371,000 (principally consultation related to mergers and acquisitions) for the fiscal years ended December 31, 2013 and 2012, respectively, for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements.

- *Tax Fees.* BDO billed or expected to bill us an aggregate of zero and $51,000 (including consultation related to mergers and acquisitions) for the fiscal years ended December 31, 2013 and 2012, respectively, for tax services, principally advice regarding the preparation of income tax returns.

- *All Other Fees.* BDO billed or expected to bill us an aggregate of zero for both fiscal years ended December 31, 2013 and 2012 for permitted non-audit services.

Applicable law and regulations provide an exemption that permits certain services to be provided by our outside auditors even if they are not pre-approved. We have not relied on this exemption at any time since the Sarbanes-Oxley Act was enacted.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Financial Statements. See Index to Financial Statements on page 34 above and the financial pages following page 57 below.
(2) Financial Statements Schedules. Schedule II - Valuation and Qualifying Accounts. All schedules other than those listed above are omitted because of the absence of conditions under which they are required or because the required information is presented in the financial statements or related notes thereto.
(3) Exhibits The following Exhibits are either filed herewith or have previously been filed with the Securities and Exchange Commission and are referred to and incorporated herein by reference to such filings:

Exhibit No.	Description
(1) 3.1	Amended and Restated Certificate of Incorporation
(3) 3.1.1	Amendment to our Amended and Restated Certificate of Incorporation
(4) 3.1.2	Amendment to our Amended and Restated Certificate of Incorporation
(6) 3.1.3	Amendment to our Amended and Restated Certificate of Incorporation
(7) 3.1.4	Amendment to our Amended and Restated Certificate of Incorporation
(8) 3.1.5	Amendment to our Amended and Restated Certificate of Incorporation
(2) 3.2	Amended and Restated By-Laws
(5) 4.1	Specimen Certificate for shares of common stock, $0.01 par value
(3) 10.1	Promissory Note dated February 9, 2000, from Robert S. Ehrlich to us
(5) 10.2	Lease dated April 8, 1997, between AMR Holdings, L.L.C. and FAAC Incorporated
(6) 10.3	Lease dated February 10, 2006 between Arbor Development Company LLC and FAAC Incorporated
† (9) 10.4	Sixth Amended and Restated Employment Agreement, dated May 13, 2013 and effective as of May 1, 2013, between us, Epsilor-EFL and Robert S. Ehrlich
† (11) 10.4.1	Amendment dated November 13, 2013 to Sixth Amended and Restated Employment Agreement, dated May 13, 2013 and effective as of May 1, 2013, between us, Epsilor-EFL and Robert S. Ehrlich
† (9) 10.5	Third Amended and Restated Employment Agreement, dated May 13, 2013 and effective as of May 1, 2013, between us, Epsilor-EFL and Steven Esses
† (11) 10.5.1	Amendment dated November 13, 2013 to Third Amended and Restated Employment Agreement, dated May 13, 2013 and effective as of May 1, 2013, between us, Epsilor-EFL and Steven Esses
† (9) 10.6	Third Amended and Restated Employment Agreement between us and Thomas J. Paup dated May 13, 2013 and effective as of May 1, 2013
† (12) 10.6.1	
† (9) 10.7	Amended and Restated Consulting Agreement, dated May 13, 2013 and effective as of May 1, 2013, between us and Sampen Corporation
(10) 10.8	
(10) 10.8.1	
(10) 10.9	
(10) 10.10	
* 18.1	Preferability letter of BDO USA, LLP
(10) 21.1	List of Subsidiaries of the Registrant

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Exhibit No.	Description
* 23.1	Consent of BDO USA, LLP
* 31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
* 31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
* 32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
* 32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
* 101.INS	XBRL Instance Document
* 101.SCH	XBRL Taxonomy Extension Schema Document
* 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
* 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
* 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
* 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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* Filed herewith
† Includes management contracts and compensation plans and arrangements
(1) Incorporated by reference to our Registration Statement on Form S-1 (Registration No. 33-73256), which became effective on February 23, 1994
(2) Incorporated by reference to our Registration Statement on Form S-1 (Registration No. 33-97944), which became effective on February 5, 1996
(3) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2000
(4) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2003
(5) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2004
(6) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2005
(7) Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006
(8) Incorporated by reference to our Current Report on Form 8-K filed June 9, 2009
(9) Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013
(10) Incorporated by reference to our Annual Report on Form 10-K/A for the year ended December 31, 2012
(11) Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013
(12) Incorporated by reference to our Current Report on Form 8-K filed January 14, 2014

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AROTECH CORPORATION

By: /s/ Robert S. Ehrlich
Name: Robert S. Ehrlich
Title: Chairman and Chief Executive Officer

Date: March 31, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Robert S. Ehrlich Robert S. Ehrlich	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 2014
/s/ Thomas J. Paup Thomas J. Paup	Senior Vice President – Finance and Chief Financial Officer (Principal Financial Officer)	March 31, 2014
/s/ Norman E. Johnson Norman E. Johnson	Controller (Principal Accounting Officer)	March 31, 2014
/s/ Steven Esses Steven Esses	President and Director	March 31, 2014
/s/ Jay M. Eastman Dr. Jay M. Eastman	Director	March 31, 2014
/s/ Seymour Jones Seymour Jones	Director	March 31, 2014
/s/ Michael E. Marrus Michael E. Marrus	Director	March 31, 2014
/s/ Arthur S. Leibowitz Arthur S. Leibowitz	Director	March 31, 2014

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Arotech Corporation:

Ann Arbor, Michigan

We have audited the accompanying consolidated balance sheets of Arotech Corporation and subsidiaries (the "Company") as of December 31, 2013 and 2012 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arotech Corporation and subsidiaries at December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended**,** in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ BDO USA, LLP

Grand Rapids, Michigan

March 31, 2014

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AROTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

In U.S. dollars

	December 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,821,325	$ 1,580,627
Restricted collateral deposits	498,495	186,306
Trade receivables	12,362,871	9,639,709
Unbilled receivables	8,463,920	13,374,004
Other accounts receivable and prepaid expenses	1,379,621	1,178,780
Inventories	10,074,766	10,033,525
Discontinued operations – short term	–	389,272
Total current assets	38,600,998	36,382,223
LONG TERM ASSETS:		
Severance pay fund	4,968,811	4,177,488
Other long term receivables	73,979	55,156
Property and equipment, net	4,926,949	4,464,580
Other intangible assets, net	1,059,151	2,238,273
Goodwill	31,024,754	30,562,298
Total long term assets	42,053,644	41,497,795
Total assets	$ 80,654,642	$ 77,880,018

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

In U.S. dollars

	December 31, 2013	December 31, 2012
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 5,107,208	$ 7,156,327
Other accounts payable and accrued expenses	6,012,041	4,252,910
Current portion of long term debt	95,382	888,839
Short term bank credit	–	9,787,779
Deferred revenues	7,020,079	3,798,086
Discontinued operations – short term	–	588,592
Total current liabilities	18,234,710	26,472,533
LONG TERM LIABILITIES:		
Accrued severance pay	7,020,060	6,133,042
Long term portion of debt	1,830,348	992,917
Deferred tax liability	5,518,521	4,920,021
Other long term liabilities	74,027	27,590
Discontinued operations – long term	–	912,813
Total long-term liabilities	14,442,956	12,986,383
STOCKHOLDERS' EQUITY:		
Share capital –		
Common stock – $0.01 par value each;		
Authorized: 50,000,000 shares as of December 31, 2013 and 2012;		
Issued and outstanding: 20,163,163 shares and 16,151,298 shares as of December 31, 2013 and 2012, respectively	201,632	161,513
Preferred shares – $0.01 par value each;		
Authorized: 1,000,000 shares as of December 31, 2013 and 2012; No shares issued or outstanding as of December 31, 2013 and 2012	–	–
Additional paid-in capital	229,917,341	223,181,705
Accumulated deficit	(183,096,572)	(185,248,923)
Notes receivable from stockholders	(908,054)	(908,054)
Accumulated other comprehensive income	1,862,629	1,234,861
Total stockholders' equity	47,976,976	38,421,102
Total liabilities and stockholders' equity	$ 80,654,642	$ 77,880,018

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

In U.S. dollars

	December 31,	
	2013	**2012**
Revenues	$ 88,571,428	$ 80,050,434
Cost of revenues	64,480,140	62,141,038
Research and development expenses	2,955,883	2,043,718
Selling and marketing expenses	5,617,705	5,487,910
General and administrative expenses	10,886,959	10,052,765
Amortization of intangible assets	1,091,126	1,185,539
Total operating costs and expenses	85,031,813	80,910,970
Operating income (loss)	3,539,615	(860,536)
Other income	286,347	8,284
Financial expense, net	(499,272)	(547,986)
Total other expense	(212,925)	(539,702)
Income (loss) - continuing operations before income tax expense	3,326,690	(1,400,238)
Income tax expense	1,052,720	628,156
Income (loss) from continuing operations	2,273,970	(2,028,394)
Loss from discontinued operations, net of income tax	(121,619)	(988,283)
Net income (loss)	2,152,351	(3,016,677)
Other comprehensive income, net of $0 income tax for both years		
Foreign currency translation adjustment	627,768	(135,363)
Comprehensive income (loss)	$ 2,780,119	$ (3,152,040)
Basic net income (loss) per share – continuing operations	$ 0.14	$ (0.14)
Basic net income (loss) per share – discontinued operations	$ (0.01)	$ (0.07)
Basic net income (loss) per share	$ 0.13	$ (0.21)
Diluted net income (loss) per share – continuing operations	$ 0.13	$ (0.14)
Diluted net income (loss) per share – discontinued operations	$ (0.01)	$ (0.07)
Diluted net income (loss) per share	$ 0.12	$ (0.21)
Weighted average number of shares used in computing basic net income (loss) per share	16,507,848	14,713,583
Weighted average number of shares used in computing diluted basic and diluted net income (loss) per share	17,110,588	14,713,583

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

In U.S. dollars

	Common stock		Additional paid-in capital	Accumulated deficit	Notes receivable from stockholders	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount					
Balance as of January 1, 2012	15,570,491	$ 155,705	$ 222,786,426	$(182,232,246)	$ (954,647)	$ 1,370,224	$ 41,125,462
Stock based compensation	–	–	447,680	–	–	–	447,680
Restricted stock issued	517,582	5,176	(5,176)	–	–	–	–
Restricted stock units vested	63,225	632	(632)	–	–	–	–
Write-down of shareholder loans	–	–	(46,593)	–	46,593	–	–
Foreign currency translation adjustment	–	–	–	–	–	(135,363)	(135,363)
Net loss	–	–	–	(3,016,677)	–	–	(3,016,677)
Balance as of December 31, 2012	16,151,298	$ 161,513	$ 223,181,705	$(185,248,923)	$ (908,054)	$ 1,234,861	$ 38,421,102

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)

In U.S. dollars

	Common stock		Additional paid-in capital	Accumulated deficit	Notes receivable from stockholders	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount					
Balance as of January 1, 2013	16,151,298	$ 161,513	$ 223,181,705	$(185,248,923)	$ (908,054)	$ 1,234,861	$ 38,421,102
Stock based compensation	–	–	437,306	–	–	–	437,306
Sale of stock – public offering	3,942,856	39,429	6,299,020	–	–	–	6,338,449
Restricted stock issued	268,305	2,683	(2,683)	–	–	–	–
Restricted stock units vested	62,889	629	(629)	–	–	–	–
Restricted stock forfeitures	(262,185)	(2,622)	2,622	–	–	–	–
Foreign currency translation adjustment	–	–	–	–	–	627,768	627,768
Net income	–	–	–	2,152,351	–	–	2,152,351
Balance as of December 31, 2013	20,163,163	$ 201,632	$ 229,917,341	$(183,096,572)	$ (908,054)	$ 1,862,629	$ 47,976,976

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

In U.S. dollars

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 2,152,351	$ (3,016,677)
Adjustments required to reconcile net income(loss) to net cash provided by (used in) operating activities:		
Depreciation	1,196,425	1,087,178
Amortization of intangible assets	1,091,126	1,185,539
Stock based compensation	437,306	447,680
Capital (gain) loss from sale of property and equipment	16,418	15,668
Deferred tax provision	598,500	598,500
Changes in continuing operating assets and liabilities:		
Trade receivables	(2,723,162)	2,244,070
Unbilled receivables	4,910,084	(7,651,223)
Other accounts receivable and prepaid expenses	(219,664)	277,812
Inventories	(41,241)	(530,354)
Severance pay, net	95,695	241,604
Trade payables	(2,049,119)	462,200
Other accounts payable and accrued expenses	1,805,568	622,022
Deferred revenues	3,221,993	(221,339)
Discontinued operations, including impairment of goodwill and other long-lived assets	(291,410)	(165,884)
Net cash provided by (used in) investing activities s	10,200,870	(4,403,204)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Changes in restricted collateral deposits	(312,189)	1,493,303
Purchase of property and equipment	(1,701,110)	(950,132)
Additions to capitalized software development	(3,675)	(334,700)
Proceeds from sale of property and equipment	25,898	13,713
Discontinued operations	44,827	148,661
Net cash provided by (used in) investing activities s	$ (1,946,249)	$ 370,845

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

In U.S. dollars

	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (repayment of) long term debt	$ (878,490)	$ 756,863
Change in short term bank credit	(9,787,779)	3,169,348
Proceeds from sale of common stock, net	6,338,449	–
Discontinued operations	(49,634)	(393,314)
Net cash provided by (used in) financing activities	(4,377,454)	3,532,897
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,877,167	(499,462)
CASH DIFFERENCES DUE TO EXCHANGE RATE CHANGES	256,983	(212,471)
NET CHANGE IN CASH AND CASH EQUIVALENTS - DISCONTINUED	106,548	(31,603)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,580,627	2,324,163
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 5,821,325	$ 1,580,627
SUPPLEMENTARY INFORMATION ON NON-CASH AND OTHER TRANSACTIONS:		
Interest paid during the year	$ 420,505	$ 400,905
Taxes on income paid during the year	$ 93,004	$ 38,118

The accompanying notes are an integral part of the consolidated financial statements**.**

AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 1:– GENERAL

a. Corporate structure:

Arotech Corporation ("Arotech") and its wholly-owned subsidiaries (the "Company") provide defense and security products for the military, law enforcement and homeland security markets, including advanced zinc-air and lithium batteries and chargers, and multimedia interactive simulators/trainers. The Company operates primarily through its wholly-owned subsidiaries FAAC Incorporated ("FAAC"), based in Ann Arbor, Michigan with locations in Royal Oak, Michigan and Orlando, Florida; Electric Fuel Battery Corporation ("EFB"), based in Auburn, Alabama; and Epsilor-Electric Fuel Ltd. ("Epsilor-EFL"), based in Dimona, Israel with a location in Beit Shemesh, Israel. EFB and Epsilor-EFL form the Company's Battery and Power Systems Division. IES Interactive Training ("IES") and Realtime Technologies ("RTI") were merged with FAAC in 2007 and 2010, respectively, to create Arotech's Training and Simulation Division. Pursuant to a management decision in the fourth quarter of 2011 and sale in 2012, the Company's Armor Division, consisting of M.D.T. Protective Industries, Ltd. ("MDT"), based in Lod, Israel, and MDT Armor Corporation ("MDT Armor"), based in Auburn, Alabama, along with the trade name of Armour of America Incorporated ("AoA"), are reflected as discontinued operations for all periods presented.

b. Impairment of goodwill and other long-lived assets:

Goodwill and indefinite-lived intangible assets are tested for impairment at least annually and between annual tests in certain circumstances, and written down when impaired. Goodwill is tested for impairment by comparing the fair value of the Company's reporting units with their carrying value. All of the Company's continuing reporting units have goodwill. Fair value is determined using discounted cash flows. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates and weighted average cost of capital.

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-08, "Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment." ASU 2011-08 amends the guidance in Accounting Standards Codification ("ASC") 350, Intangibles – Goodwill and Other. Under the revised guidance, when testing goodwill for impairment, the Company has the option of performing a qualitative assessment in order to determine whether it needs to calculate the fair value of a reporting unit. If the Company determines, on the basis of qualitative factors, that it is more likely than not that the fair value of the reporting unit is greater than the carrying amount, the two-step impairment test would not be required. The Company early adopted the ASU in 2011.

In June 2013, December 2013 and June 2012, the Company determined, using qualitative factors, that the goodwill for the Training and Simulation reporting unit was not impaired. The Company originally used a June 30 date because this allowed the Company to use internal resources that are available before starting the annual audit process but Management determined that an impairment review as of December 31, 2013 would be more appropriate as it better aligns the timing of the Company's budget process with this test. In June 2013, December 2013 and June 2012, the Company completed the first step of the quantitative analysis of the goodwill in the Battery and Power Systems reporting unit, in which it computed a fair value of that reporting unit. Because the fair value was greater than the carrying value of the reporting unit at each measurement date, the second step of the quantitative impairment assessment was not required and no goodwill was impaired. Although the valuation for Battery and Power Systems Division exceeded the reporting unit's carrying value by over 19%, the Company will continue to monitor the actual results of the reporting unit versus the forecast as of December 31, 2013 used for the impairment review and reevaluate the goodwill as required. Additionally, the Company performed a complete long-lived asset impairment review of the discontinued Armor reporting unit in 2011 that resulted in the full impairment of that unit's goodwill ($1,792,339) and property and equipment ($1,487,219), as reported in discontinued operating results for that year.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 1:– GENERAL (Cont.)

The Company also considers its current market capitalization compared to the sum of the estimated fair values of its reporting units in conjunction with each impairment assessment. As part of this consideration, management recognizes that the market capitalization of the Company may not be an accurate representation of the sum of the reporting unit fair values for the following reasons:

- The long term horizon of the valuation process versus a short term valuation using current market conditions;
- The valuation by individual business segments versus the market share value based on the Company as a whole, including unallocated corporate costs;
- The Company's stock is thinly traded and widely dispersed with minimal institutional ownership, and thus not followed by major market analysts, leading management to conclude that the market in the Company's securities was not acting as an informationally efficient reflection of all known information regarding the Company and thereby serves to understate their value; and
- Control premiums reflected in the reporting unit fair values but not in the Company's stock price.

The Company's long-lived assets and amortizable identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the carrying amount of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by use of the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

As of the December 31, 2013 valuation date, the Company's market capitalization was $70.4 million, which did not, in management's view, suggest that the fair value estimates used in its impairment assessment required any adjustment.

c. Related parties

The Company has had a consulting agreement with Sampen Corporation since 2005. Sampen is a New York corporation owned by members of the immediate family of one of the Company's executive officers, and this executive officer is an employee of both the Company and of Sampen. In 2013, the term of this consulting agreement was extended until December 31, 2015, unless either Sampen or the Company terminates the agreement sooner.

Pursuant to the terms of the Company's agreement with Sampen, Sampen provides one of its employees to the Company for such employee to serve as (i) until September 30, 2014, President of the Company, and (ii) from October 1, 2014, President and Chief Executive Officer of the Company. The Company pays Sampen $8,960 per month, plus an annual bonus, on a sliding scale, in an amount equal to a minimum of 25% of Sampen's annual base compensation then in effect, up to a maximum of 75% of its annual base compensation then in effect if the results the Company actually attained for the year in question are 120% or more of the amount the Company budgeted at the beginning of the year. The Company also pays Sampen to cover the cost of the Company's use of Sampen's offices as an ancillary New York office and the attendant expenses and insurance costs, an amount equal to 16% of each monthly payment of base compensation.

During the years ended December 31, 2013 and 2012, the Company incurred a total of $148,723 and $185,856, respectively, related to Sampen.

On February 9, 2000, Mr. Ehrlich, the Company's Chief Executive Officer, exercised 9,404 stock options. Mr. Ehrlich paid the exercise price of the stock options and certain taxes that the Company paid on his behalf by giving the Company a non-recourse promissory note due in 2025 in the amount of $329,163, bearing annual interest at 1% over the then-current federal funds rate announced from time to time by the *Wall Street Journal*, secured by the shares of the Company's common stock acquired through the exercise of the options and certain compensation

due to Mr. Ehrlich upon termination. As of December 31, 2013 and 2012, the aggregate amount outstanding pursuant to this promissory note was $452,995. Additionally, there is a former employee with the same arrangement.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 1:– GENERAL (Cont.)

On June 10, 2002, Mr. Ehrlich exercised 3,571 stock options. Mr. Ehrlich paid the exercise price of the stock options by giving the Company a non-recourse promissory note due in 2012 in the amount of $36,500, bearing simple annual interest at a rate equal to the lesser of (i) 5.75%, and (ii) 1% over the then-current federal funds rate announced from time to time, secured by the shares of the Company's common stock acquired through the exercise of the options. As of December 31, 2012, the aggregate amount outstanding pursuant to this promissory note was $46,593, which was not repaid and was charged to paid in capital in the fourth quarter of 2012. Pursuant to the terms of the note, the shares of stock securing the note were returned to the Company and retired in 2013 when the loan was not repaid.

d. Discontinued operations

In December 2011, the Company's Board of Directors approved management's plan to sell the Armor Division. The sale of the assets was completed in June 2012 at a cash purchase price of $50,000. Unless otherwise indicated, discontinued operations are not included in the Company's reported results.

Unless otherwise noted, amounts and disclosures throughout the Notes to Consolidated Financial Statements relate to the Company's continuing operations. The assets and liabilities of the discontinued operation after impairment, the revenues and expenses of the discontinued operation and a list of unusual expenses relating to the discontinued operation are shown below.

ASSETS AND LIABILITIES – DISCONTINUED	**December 31,**	
	2013	**2012**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ –	$ 106,548
Restricted collateral deposits	–	44,827
Trade receivables	–	164,824
Other accounts receivable and prepaid expenses	–	73,073
Total current assets	–	389,272
Total assets	$ –	$ 389,272
LIABILITIES		
CURRENT LIABILITIES:		
Trade payables	$ –	$ 75,862
Other accounts payable and accrued expenses	–	453,443
Current portion of long term debt (building mortgage)	–	59,287
Total current liabilities	–	588,592
LONG TERM LIABILITIES		
Long term debt (building mortgage)	–	912,813
Total long-term liabilities	–	912,813
Total liabilities	$ –	$ 1,501,405

REVENUE AND EXPENSES – DISCONTINUED	**December 31,**	
	2013	**2012**
Revenues	$ 2,009	$ 6,890,664
Cost of revenues	738	6,476,082
Selling and marketing expenses	1,351	301,990
General and administrative expenses	116,234	1,513,317

Total operating costs and expenses	118,323	8,291,389
Operating loss	(116,314)	(1,400,725)
Other (income) expense	(52,457)	(346,331)
Financial (income) expense, net	56,762	(66,111)
Total other (income) expense	4,305	(412,442)
Loss before income tax expense	(120,619)	(988,283)
Income tax expense	1,000	–
Net loss	$ (121,619)	$ (988,283)
Loss on sale	$ –	$ (829,490)

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 1:– GENERAL (Cont.)

The operations in 2013 primarily represent the completion of certain contracts that were not assumed by the buyer of the Armor Division.

The Company retained the facility used by the Armor operations and currently leases it to the buyer of those operations under a three year operating lease for $9,300 per month. The Company is marketing the facility for sale, and it has no recorded book value as of December 31, 2013. The Company remains responsible for the outstanding mortgage on this facility, which was transferred to Arotech in 2013.

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”).

a. Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A majority of the revenues of the Company are generated in U.S. dollars (“dollars”). In addition, a substantial portion of the Company’s costs are incurred in dollars. Management believes that the dollar is the primary currency of the economic environment in which the Company operates. Thus, the functional and reporting currency of the Company including most of its subsidiaries is the dollar. Accordingly, monetary accounts maintained in currencies other than dollars are remeasured into dollars, with resulting gains and losses reflected in the consolidated statements of operations as financial income or expenses, as appropriate.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The majority of transactions of MDT (discontinued) and Epsilor-EFL are in New Israel Shekels ("NIS") and a substantial portion of MDT's and Epsilor-EFL's costs is incurred in NIS. Management believes that the NIS is the functional currency of MDT and Epsilor-EFL. Accordingly, the financial statements of MDT and Epsilor-EFL have been translated into dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the weighted average exchange rate for the period. The resulting translation adjustments are reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. As of December 31, 2012 all accumulated other comprehensive income related to the Armor Division, in the amount of $189,969, was recorded as an adjustment to the loss on sale in discontinued operations.

c. Principles of consolidation:

The consolidated financial statements include the accounts of Arotech and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with maturities of three months or less when acquired.

e. Restricted collateral deposits:

Restricted collateral deposits are primarily invested in highly liquid deposits which are used as a security for the Company's performance guarantees at FAAC and Epsilor-EFL.

f. Marketable securities:

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Investment in securities are classified as available-for-sale and stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statements of operations. The Company did not hold any marketable securities at either December 21, 2013 or 2012.

g. Inventories:

Inventories are stated at the lower of cost or market value. Inventory write-offs and write-down provisions are provided to cover risks arising from slow-moving items or technological obsolescence and for market prices lower than cost. The Company periodically evaluates the quantities on hand relative to current and historical selling prices and historical and projected sales volume. Based on this evaluation, provisions are made to write inventory down to its market value. In 2013 and 2012, the Company wrote off approximately $186,000 and $57,000, respectively, of obsolete inventory, which has been included in the cost of revenues.

Cost is determined as follows:

Raw and packaging materials – by the average cost method or FIFO.

Work in progress – represents the cost of manufacturing with additions of allocable indirect and direct manufacturing costs.

Finished products – on the basis of direct manufacturing costs with additions of allocable indirect manufacturing costs.

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In U.S. dollars

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Property and equipment:

Property and equipment are stated at cost net of accumulated depreciation and investment grants received from the State of Israel for investments in fixed assets under the Law for the Encouragement of Capital Investments, 5719-1959 (the “Investments Law”). The Company did not receive any investment grants in 2013 and 2012.

Depreciation is calculated by the straight-line method over the following estimated useful lives of the assets:

	Depreciable life (in years)
Computers and related equipment	3 to 5
Motor vehicles	5 to 7
Office furniture and equipment	10
Machinery, equipment and installations	10
Buildings	30
Land	Not depreciated
Leasehold improvements	Shorter of the term of the lease or the life of the asset
Demo inventory	5

i. Revenue recognition:

The Company is a defense and security products and services company, engaged in two business areas: interactive simulation for military, law enforcement and commercial markets; and batteries and charging systems for the military. During 2013 and 2012, the Company recognized revenues (i) from the sale and customization of interactive training systems and from the maintenance services in connection with such systems (Training and Simulation Division); (ii) from the sale of batteries, chargers and adapters to the military, and under certain development contracts with the U.S. Army (Battery and Power Systems Division); and (iii) from the sale of lifejacket lights (Battery and Power Systems Division).

Revenues from products sold by the Battery and Power Systems Division are recognized when persuasive evidence of an agreement exists, delivery has occurred, the fee is fixed or determinable, collectability is probable, and no further obligation remains. Typically revenue is recognized, per the contract, when the transaction is entered into the U.S. Government’s Wide Area Workflow system, which occurs after the products have been accepted at the plant or when shipped. Sales to other entities are recorded in accordance with the contract, either when shipped or delivered. Normally, in this division, there are no further obligations that would preclude the recognition of revenue.

Revenues from contracts in the Training and Simulation Division and Battery and Power Systems Division that involve customization of the system to customer specifications are recognized using contract accounting on a percentage of completion method, in accordance with the “Input Method.” The amount of revenue recognized is based on the percentage to completion achieved. The percentage to completion is measured by monitoring progress using records of actual time, materials and other costs incurred to date in the project compared to the total estimated project requirement. Estimates of total project requirements are based on prior experience of customization, delivery and acceptance of the same or similar technology and are reviewed and updated regularly by management. Provisions for estimated losses on uncompleted

contracts are made in the period in which such losses are first determined, in the amount of the estimated loss on the entire contract. Normally there are no further obligations that would preclude the recognition of revenue.

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In U.S. dollars

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company believes that the use of the percentage of completion method is appropriate as the Company has the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. In addition, contracts executed include provisions that clearly specify the enforceable rights regarding services to be provided and received by the parties to the contracts, the consideration to be exchanged and the manner and the terms of settlement, including in cases of terminations for convenience. In all cases, the Company expects to perform its contractual obligations and its customers are expected to satisfy their obligations under the contract.

Revenues from simulators that do not require significant customization are recognized when persuasive evidence of an agreement exists, delivery has occurred, no significant obligations with regard to implementation remain, the fee is fixed or determinable and collectability is probable.

Maintenance and support revenue included in multiple element arrangements is deferred and recognized on a straight-line basis over the term of the maintenance and support services. Revenues from training are recognized when it is performed. The Vendor Specific Objective Evidence ("VSOE") of fair value of the maintenance, training and support services is determined based on the price charged when sold separately or when renewed.

Unbilled receivables include cost and gross profit earned in excess of billing.

Deferred revenues include unearned amounts received under maintenance and support services, customer prepayments and billing in excess of costs and estimated earnings on uncompleted contracts.

j. Warranty:

The Company typically offers a one to two year warranty for most of its products. The specific terms and conditions of those warranties vary depending upon the product sold and country in which the Company does business. The Company estimates the costs that may be incurred under its basic limited warranty, including parts and labor, and records deferred revenue in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of installed units, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its reserves and adjusts the amounts as necessary. (See Note 17.)

k. Research and development cost:

The Company capitalizes certain software development costs, subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon the completion of a working model or a detailed program design. Research and development costs incurred in the process of developing product improvements or new products are generally charged to expenses as incurred. Significant costs incurred by the Company between completion of the working model or a detailed program design and the point at which the product is ready for general release have been capitalized. Capitalized software costs will be amortized by the greater of the amount computed using: (i) the ratio that current gross revenues from sales of the software bears to the total of current and anticipated future gross revenues from sales of that software, or (ii) the straight-line method over the estimated useful life of the product (one to three years). The Company assesses the net realizable value of this intangible asset on a regular basis by determining whether the amortization of the asset over its remaining life can be recovered through undiscounted future operating cash flows from the specific software product sold. Based on its most recent analyses, management believes that no impairment of capitalized software development costs exists as of December 31, 2013.

In 2013 and 2012, the Training and Simulation Division capitalized approximately $4,000 and $335,000, respectively, in software development costs that will be amortized on a straight-line method over 2 years, the useful life of the software.

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In U.S. dollars

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Income taxes:

The Company accounts for income taxes under the asset and liability method, whereby deferred tax assets and liability account balances are determined based on tax credit carryforwards and differences between the financial reporting and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

The Company has adopted the provisions of the FASB ASC 740-10. FASB ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must determine whether it is “more-likely-than-not” that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If the Company’s determinations and estimates prove to be inaccurate, the resulting adjustments could be material to the Company’s future financial statements.

m. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted collateral deposits and trade receivables. Cash and cash equivalents are invested mainly in U.S. dollar deposits with major Israeli and U.S. banks. Such deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company’s investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The trade receivables of the Company are mainly derived from sales to customers located primarily in the United States and Israel along with the countries listed in footnote 16.c. Management believes that credit risks are moderated by the diversity of its end customers and geographical sales areas. The Company performs ongoing credit evaluations of its customers’ financial condition. An allowance for doubtful accounts is determined with respect to those accounts that the Company has determined to be doubtful of collection.

The Company had no off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign currency hedging arrangements.

n. Basic and diluted net income (loss) per share:

Basic net income (loss) per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted net income (loss) per share is computed based on the weighted average number of shares of common stock outstanding during each year, plus dilutive common stock equivalents related to outstanding stock options and non-vested restricted stock. All common stock equivalents are excluded from the calculation of the diluted net loss per common share because all such securities are anti-dilutive for periods incurring a loss. The total weighted average number of shares related to the outstanding common stock equivalents excluded from the calculations of diluted net income (loss) per share was 611,700 and 614,968 for the years ended December 31, 2013 and 2012, respectively.

o. Accounting for stock-based compensation:

Stock-based awards to employees are recognized as compensation expense based on the calculated fair value on the date of grant. The Company determines the fair value of options using the Black-Scholes option pricing model. This model requires subjective assumptions, including future stock price volatility and expected term.

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In U.S. dollars

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company did not grant any options in 2013 or 2012. The Company assumed a 20% forfeiture rate on existing options for both years. The Company typically uses a 5-10% forfeiture rate for restricted stock and restricted stock units and adjusts both forfeiture rates based on historical forfeitures. Each restricted stock unit is equal to one share of Company stock and is redeemable only for stock.

p. Fair value of financial instruments:

The following methods and assumptions were used by the Company in estimating their fair value disclosures for financial instruments using the required three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which may require the Company to develop its own assumptions.

The carrying amounts of cash and cash equivalents, restricted collateral deposits, trade and other receivables, short-term bank credit, and trade payables approximate their fair value due to the short-term maturity of such instruments.

The fair values of long-term promissory notes are estimated by discounting the future cash flows using current interest rates for loans of similar terms and maturities. The carrying amount of the long-term liabilities approximates their fair value (Level 3).

q. Severance pay:

The Company’s liability for severance pay for its Israeli employees is calculated pursuant to Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. Israeli employees are entitled to one month’s salary for each year of employment, or a portion thereof. The Company’s liability for all of its Israeli employees is fully provided for by monthly deposits into severance pay funds held by insurance companies on behalf of the employees, insurance policies and by accrual. The fair value of these funds, which are considered Level 2 fair value measurements, is recorded as an asset in the Company’s balance sheet.

In addition, according to certain employment agreements, the Company is obligated to provide for a special severance pay in addition to amounts due to certain employees pursuant to Israeli severance pay law. During the years ended December 31, 2013 and 2012, the Company had made a provision of $49,387 and $217,733, respectively, for this special severance pay. As of December 31, 2013 and 2012, the unfunded severance pay in that regard amounted to $1,317,231 and $1,267,844, respectively.

Pursuant to the terms of the respective employment agreements between the Company and its Chief Executive Officer and its President, funds to secure payment of their respective contractual severance amounts are to be deposited for their benefit, with payments to be made pursuant to an agreed-upon schedule. These funds continue to be owned by the Company, which benefits from all gains and bears the risk of all losses resulting from investments of these funds.

The deposited funds include profits and losses accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The fair value of the deposited funds is based on the cash surrender value of these policies and includes immaterial profits.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In April 2009, the Company, with the agreement of its Chief Executive Officer and its President, funded an additional portion of their severance security by means of issuing to them, in trust, restricted stock having a value (based on the closing price of the Company's stock on the Nasdaq Stock Market on the date on which the executives and the Company's board of directors agreed to this arrangement) of $440,000, a total of 602,740 shares. The Company agreed with the executives that the economic risk of gain or loss on these shares is to be borne by them. Should they leave the Company's employ under circumstances in which they are not entitled to their severance package (primarily, termination for Cause as defined in their employment agreement), these shares would be returned to the Company for cancellation and because of this, these shares are not included in the basic EPS calculation.

Severance expenses for continuing operations for the years ended December 31, 2013 and 2012 amounted to $13,647 and $19,216, respectively.

r. Advertising costs:

The Company records advertising costs as incurred. Advertising expense for the years ended December 31, 2013 and 2012 was approximately $71,000 and $156,000, respectively.

s. New accounting pronouncements:

In July 2012, the FASB issued ASU 2012-02 "Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment" ("ASU 2012-02"). ASU 2012-02 permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. Under the amendments in ASU 2012-02, an entity is not required to calculate the fair value of an indefinite-lived intangible asset unless it determines that it is more likely than not that the fair value of the asset is less than its carrying amount. An entity also will have the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. ASU 2012-02 is effective for interim and annual indefinite-lived intangible asset impairment tests performed for fiscal years beginning on or after September 15, 2012, with early adoption permitted. The Company's adoption of ASU 2012-02 did not have a material impact on its consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU is intended to improve the reporting of reclassifications out of accumulated other comprehensive income. The ASU requires an entity to report, either on the face of the statement where net income is presented or in the notes to the financial statements, the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in their entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments in this ASU apply to all entities that issue financial statements that are presented in conformity with U.S. GAAP and that report items of other comprehensive income. For public entities, the amendments in this ASU are effective prospectively for reporting periods beginning after December 15, 2012. The impact of adoption of this ASU by the Company was not material.

No other new accounting pronouncements issued or effective during 2013 have had or are expected to have a significant impact on the Company's consolidated financial statements.

t. Share repurchase:

In February 2009, the Company's Board of Directors authorized the repurchase in the open market or in privately negotiated transactions of up to $1,000,000 of the Company's common stock. Through December 31, 2013, the Company repurchased 638,611 shares for a total of $869,931

– there were no shares repurchased in 2013 or 2012. The program now expires in August 2014. The repurchase program is subject to management’s discretion.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Reclassification:

Prior period amounts are reclassified, when necessary, to conform to the current period presentation.

NOTE 3:– RESTRICTED COLLATERAL DEPOSITS

The following is a summary of restricted collateral deposits as of December 31, 2013 and 2012,

	December 31,	
	2013	**2012**
Deposits in connection with Epsilor/EFL projects	$ 352,353	$ 40,164
Deposits in connection with FAAC projects	146,142	146,142
Total restricted collateral deposits	$ 498,495	$ 186,306

NOTE 4:– OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

The following is a summary of other accounts receivable and prepaid expenses as of December 31, 2013 and 2012:

	December 31,	
	2013	**2012**
Government authorities	$ 187,707	$ 101,509
Employees	69,283	184,423
Prepaid expenses	689,651	552,568
Other	432,980	340,280
Total	$ 1,379,621	$ 1,178,780

NOTE 5:– INVENTORIES

The following is a summary of inventories as of December 31, 2013 and 2012:

	December 31,	
	2013	**2012**
Raw and packaging materials	$ 6,761,876	$ 7,455,426
Work in progress	666,386	363,415
Finished products	2,646,504	2,214,684
Total	$ 10,074,766	$ 10,033,525

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 6:– PROPERTY AND EQUIPMENT, NET

a. Composition of property and equipment is as follows:

	December 31, 2013	December 31, 2012
Cost:		
Computers and related equipment	$ 2,370,067	$ 2,290,850
Motor vehicles	440,470	492,584
Office furniture and equipment	1,116,884	1,068,526
Machinery, equipment and installations	6,480,993	5,755,750
Buildings	1,411,992	1,376,036
Land	300,000	300,000
Leasehold improvements	1,475,562	1,107,649
Demo inventory	1,657,928	1,617,416
	15,253,896	14,008,811
Accumulated depreciation:		
Computers and related equipment	1,966,293	2,102,237
Motor vehicles	245,329	186,224
Office furniture and equipment	958,116	956,471
Machinery, equipment and installations	4,731,881	4,119,078
Buildings	150,506	82,103
Leasehold improvements	889,495	828,920
Demo inventory	1,385,327	1,269,198
	10,326,947	9,544,231
Property and equipment, net	$ 4,926,949	$ 4,464,580

b. Depreciation expense amounted to $1,196,425 and $1,087,178 for the years ended December 31, 2013 and 2012, respectively.

As for liens, see Note 10.d.

NOTE 7:– GOODWILL AND OTHER INTANGIBLE ASSETS, NET

a. Goodwill

The Company allocates goodwill acquired in a business combination to the appropriate reporting unit as of the acquisition date. Currently, the Company’s reporting units are also its reportable segments and the associated goodwill was determined when the specific businesses in the reportable segments were purchased.

A summary of the goodwill by business segment is as follows:

	December 31, 2012	Additions	Adjustments (currency)	December 31, 2013
Training and Simulation Division	$ 24,435,641	$ –	$ –	$ 24,435,641
Battery and Power Systems Division	6,126,657	–	462,456	6,589,113
Total	$ 30,562,298	$ –	$ 462,456	$ 31,024,754

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 7:– GOODWILL AND OTHER INTANGIBLE ASSETS, NET (Cont.)

b. Other intangible assets:

		December 31,			
		2013		2012	
	Useful life	Cost	Net book value	Cost	Net book value
Technology	4 - 8 years	$ 6,788,000	$ 94,715	$ 6,788,000	$ 189,429
Capitalized software costs	1 - 3 years	3,694,091	129,437	3,690,416	491,433
Trademarks	10 years	28,000	11,200	28,000	14,000
Backlog/customer relationship	1 - 10 years	744,000	24,800	744,000	31,000
Customer list	2 - 10 years	6,773,645	–	6,773,645	621,740
		18,027,736	$ 260,151	18,024,061	$ 1,347,602
Exchange rate differences		–		91,671	
Less - accumulated amortization		(17,767,585)		(16,676,459)	
Amortized cost		260,151		1,439,273	
Trademarks (indefinite lives)		799,000		799,000	
Net book value		$ 1,059,151		$ 2,238,273	

Amortization expense amounted to $1,091,126 and $1,185,539 for the years ended December 31, 2013 and 2012, respectively, including amortization of capitalized software costs of $365,671 and $460,085, respectively.

c. Estimated amortization expenses for the years shown is as follows:

Year ending December 31,	
2014	$ 233,151
2015	27,000
Total	$ 260,151

Goodwill and other intangible assets are adjusted on a quarterly basis for any change due to currency fluctuations and any variation is included in the accumulated other comprehensive income on the Balance Sheet.

NOTE 8:– SHORT-TERM BANK CREDIT AND LOANS

As amended in February 2013, the primary line of $15,000,000, subject to borrowing base limitations and outstanding letters of credit, is denominated in U.S. dollars. This line is secured by Arotech's assets and the assets of the Company's other domestic subsidiaries and guaranteed by the Company and its other domestic subsidiaries, incurs interest at a rate of LIBOR plus 375 basis points and has an unused line of credit fee of 0.35%. This credit facility expires May 31, 2015. The credit agreement contains certain covenants, including minimum Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), quarterly Maximum Increase in Net Advance to Affiliates of less than 90% of EBITDA and an annual Fixed Charge Coverage Ratio of not less than 1.1 to 1.0. The Company was in compliance with all covenants at December 31, 2013 and management believes that the Company will be in compliance with these covenants during 2014.

NOTE 9:– OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following is a summary of other accounts payable and accrued expenses as of December 31, 2013 and 2012:

December 31,

	2013	2012
Employees and payroll accruals	$ 4,172,710	$ 3,003,048
Accrued vacation pay	893,654	811,910
Accrued expenses	764,806	369,800
Government authorities	180,871	68,152
Total	$ 6,012,041	$ 4,252,910

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In U.S. dollars

NOTE 10:– COMMITMENTS AND CONTINGENT LIABILITIES

a. Royalty commitments:

Under Epsilor-EFL's research and development agreements with the Office of the Chief Scientist ("OCS"), and pursuant to applicable laws, Epsilor-EFL is required to pay royalties at the rate of 3%-3.5% of net sales of products developed with funds provided by the OCS, up to an amount equal to 100% of research and development grants received from the OCS. (Amounts due in respect of projects approved after 1999 also bear interest at the LIBOR rate.) Epsilor-EFL is obligated to pay royalties only on sales of products in respect of which OCS participated in their development. Should the project fail, Epsilor-EFL will not be obligated to pay any royalties or refund the grants.

Royalties paid or accrued for the years ended December 31, 2013 and 2012 to the OCS amounted to $14,997 and zero, respectively.

b. Lease commitments:

The Company rents its facilities under various operating lease agreements, which expire on various dates through 2018. The minimum rental payments under non-cancelable operating leases are as follows:

Minimum rental payments	December 31
2014	$ 880,548
2015	556,105
2016	551,748
2017	551,748
2018	154,608
Total	$ 2,694,757

Total rent expenses for the years ended December 31, 2013 and 2012 were $887,796 and $924,864, respectively.

There are no remaining capital lease obligations.

c. Guarantees:

The Company obtained bank guarantees in the amount of $830,338 in connection with (i) obligations of one of the Company's subsidiaries to the Israeli customs authorities, and (ii) the obligation of one of the Company's subsidiaries to secure the return of products loaned to the Company from one of its customers.

d. Liens:

As security for compliance with the terms related to the investment grants from the State of Israel, Epsilor-EFL has registered floating liens (that is, liens that apply not only to assets owned at the time but also to after-acquired assets) on all of its assets, in favor of the State of Israel.

The Company has $432,000 in credit liens collateralized by the assets of the Company and guaranteed by the Company.

Epsilor-EFL has recorded a lien on all of its assets in favor of its banks to secure lines of credit. In addition Epsilor-EFL has a specific pledge on assets in respect of which government guaranteed loans were given.

e. Litigation and other claims:

As of the date of this filing, there were no material pending legal proceedings against the Company.

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In U.S. dollars

NOTE 11:– LONG TERM DEBT

a. Mortgage Note, Ann Arbor, Michigan:

In July 2011, the Training and Simulation Division purchased a building for $1,500,000 containing both office and lab space. The building was financed with a $1,100,000 mortgage loan that was obtained through the Company's primary bank. The note requires a payment (principal and interest) of approximately $8,000 per month at an interest rate of LIBOR plus 375 basis points per annum with a balloon payment due in May 2017. (See Note 8 for the relevant covenants.) In December 2012, FAAC leased surplus space of the purchased building to a non-profit organization for $6,300 per month as office space for a term of 10 years with an option to terminate the lease with a one year prior notice in May 2018.

b. Mortgage Note, Auburn, Alabama:

In March 2007, the Company purchased space for the now-discontinued Armor Division in Auburn, Alabama for approximately $1,100,000 pursuant to a seller-financed secured purchase money mortgage. Half the mortgage is payable over ten years in equal monthly installments based on a 20-year amortization of the full principal amount, and the remaining half is payable at the end of ten years in a balloon payment. The note requires a payment (principal and interest) of approximately $9,300 per month at an interest rate of 8.0% per annum. In September 2013, the Company transferred the seller-financed mortgage to Arotech from the discontinued Armor Division.The Company is currently leasing this building to the buyer of the Armor Division for approximately $9,300 per month under a three year lease expiring in June 2015.

c. Term loans, Israel:

In February 2012, the Company negotiated a short term loan with a local bank in Israel. The funds were released to the Company in three tranches of $250,000 each in February, March and April 2012. The interest rate for this loan was prime plus 1.2% and was repaid in three tranches in February, March and April 2013. The balance of this loan as of December, 2013 was zero.

d. Minimum loan payments:

Minimum loan payments	December 31,
2014	$ 95,382
2015	98,734
2016	102,356
2017	836,341
2018	55,000
Thereafter	737,917
Total	$ 1,925,730

NOTE 12:– COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Billings in excess of costs generated under the percentage-of-completion method are recorded as deferred revenues until the revenue recognition criteria are met. Deferred revenues include unearned amounts received under maintenance and support services and customer deposits of $287,830 and $16,202 for 2013 and 2012, respectively, and billing in excess of costs and estimated earnings on uncompleted contracts.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS)

In U.S. dollars

NOTE 12:– COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS (Cont.)

The following is a summary of the costs and estimated earnings on uncompleted contracts as of December 31, 2013 and 2012. Open contracts are expected to be completed in the following year. The billings in excess of costs are included in the deferred revenue line of the balance sheet:

	Year ended December 31,	
	2013	2012
Costs incurred on uncompleted contracts	$ 133,537,092	$ 111,128,026
Estimated earnings	24,312,101	18,649,855
	157,849,193	129,777,881
Less billings to date	(152,849,352)	(117,503,299)
Total	$ 4,999,841	$ 12,274,582
Costs and estimated earnings in excess of billings	$ 8,463,920	$ 13,374,004
Billings in excess of costs and estimated earnings (included in deferred revenues)	(3,464,079)	(1,099,422)
Total	$ 4,999,841	$ 12,274,582

NOTE 13:– STOCKHOLDERS' EQUITY

a. Stockholders' rights:

The Company's shares confer upon the holders the right to receive notice to participate and vote in the general meetings of the Company and right to receive dividends, if and when declared.

b. The Company has adopted the following stock award plans, whereby options may be granted for purchase of shares of the Company's common stock and where restricted shares and restricted stock units may be granted and approved by the Board of Directors. Each restricted stock unit is equal to one share of Company stock and is redeemable only for stock. Under the terms of the award plans, the Board of Directors or the designated committee grants options, restricted stock and restricted stock units. The Board of Directors or the designated committee also determines the vesting period and the exercise terms:

1. 2007 Non-Employee Director Equity Compensation Plan – 750,000 shares reserved for issuance, of which 371,853 were available for future grants to outside directors as of December 31, 2013.

2. 2009 Equity Incentive Plan – 5,000,000 shares reserved for issuance, of which 3,118,801were available for future grants to employees and consultants as of December 31, 2013.

3. Under these plans, options generally expire no later than 5-10 years from the date of grant. Each option can be exercised to purchase one share, conferring the same rights as the other common shares. Options that are cancelled or forfeited before expiration become available for future grants. The options generally vest over a three-year period (33.3% per annum) and restricted shares and restricted stock units also generally vest after three years or pursuant to defined performance criteria; in the event that employment is terminated within that period, unvested restricted shares and restricted stock units generally revert back to the Company.

4. Deferred stock compensation is amortized and recorded as compensation expense ratably over the vesting period of the option or the restriction period of the restricted shares and restricted stock units. The stock compensation expense that has been charged in the consolidated statements of operations in respect of options, restricted shares and restricted stock units to employees and directors in 2013 and

2012 was $437,306 and $447,680, respectively. The calculated intrinsic value of vested and unvested options as of December 31, 2013 and 2012 was zero.

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In U.S. dollars

NOTE 13:– STOCKHOLDERS' EQUITY(Cont.)

5. A summary of the status of the Company's plans and other share options, restricted shares and restricted stock units granted as of December 31, 2013 and 2012, and changes during the years ended on those dates, is presented below:

Stock Options:

	2013			2012		
	Amount		Weighted average exercise price	Amount		Weighted average exercise price
Options outstanding at beginning of year	12,228	$	5.46	64,953	$	7.80
Changes during year:						
Granted	–	$	–	–	$	–
Exercised	–	$	–	–	$	–
Forfeited	(3,268)	$	5.46	(52,725)	$	8.34
Options outstanding at end of year	8,960	$	5.46	12,228	$	5.46
Options vested at end of year	8,960	$	5.46	12,228	$	5.46

Restricted Shares and Restricted Stock Units:

	2013			2012		
	Shares		Weighted average fair value at grant date	Shares		Weighted average fair value at grant date
Non-vested at the beginning of the year	844,270	$	1.30	636,488	$	1.43
Changes during year:						
Restricted stock granted	270,550	$	2.94	517,582	$	1.17
Restricted units granted	110,180	$	1.67	60,000	$	1.67
Vested	(434,732)	$	1.22	(310,497)	$	1.29
Forfeited	(205,522)	$	1.41	(59,303)	$	1.49
Non-vested at the end of the year	584,746	$	2.52	844,270	$	1.30
Restricted shares vested at end of year	2,478,231	$	2.08	2,353,996	$	1.97

6. The remaining total compensation cost related to non-vested restricted share and restricted stock unit awards not yet recognized (before applying a forfeiture rate) in the income statement as of December 31, 2013 was $537,575. The weighted average period over which this compensation cost is expected to be recognized is approximately one year.

7. On January 1, 2009, the Company adopted FASB ASC 260-45-28, Share-Based Payment Arrangements, which classifies unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities and requires them to be included in the computation of diluted earnings per share using the two class method. The Company has determined that the unvested restricted stock issued to our employees and directors are "participating securities" and as such, are included, net of estimated forfeitures, in the total shares used to calculate the Company's diluted loss per share but not the basic loss per share as they are anti-dilutive.

In U.S. dollars

NOTE 14:– INCOME TAXES

a. General:

As of December 31, 2013, Arotech has net operating loss carryforwards for U.S. federal income tax purposes of $39.6 million, which are available to offset future taxable income, if any, expiring in 2020 through 2032. Utilization of U.S. net operating losses is subject to substantial annual limitations due to the “change in ownership” provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

At December 31, 2012, the Company had net deferred tax assets before valuation allowance of $43.9 million. The deferred tax assets are primarily composed of federal, state and foreign tax net operating loss (“NOL”) carryforwards. Due to uncertainties surrounding the Company’s ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset its net deferred tax asset. Additionally, the future utilization of the Company’s NOL carryforwards to offset future taxable income is subject to a substantial annual limitation as a result of IRC Section 382 changes that have occurred. Any carryforwards that will expire prior to utilization as a result of such limitations will be removed from deferred tax assets with a corresponding reduction of the valuation allowance.

The Company has indefinite-lived intangible assets consisting of trademarks and goodwill. These indefinitely-lived intangible assets are not amortized for financial reporting purposes. However, these assets are tax deductible, and therefore amortized over 15 years for tax purposes. As such, deferred income tax expense and a deferred tax liability arise as a result of the tax-deductibility of these indefinitely-lived intangible assets. The resulting deferred tax liability, which is expected to continue to increase over time, will have an indefinite life, resulting in what is referred to as a “naked tax credit.” This deferred tax liability could remain on the Company’s balance sheet indefinitely unless there is an impairment of the related assets (for financial reporting purposes), or the business to which those assets relate were to be disposed of.

Due to the fact that the aforementioned deferred tax liability could have an indefinite life, it is not netted against the Company’s deferred tax assets when determining the required valuation allowance. Doing so would result in the understatement of the valuation allowance and related deferred income tax expense.

The Company has also evaluated its income tax positions under FASB ASC 740-10 as of December 31, 2013 and the Company believes that it has no material uncertain tax positions and therefore has no uncertain tax position reserves and does not expect to provide for any such reserves. The Company does not believe that the unrecognized tax benefits will change within 12 months of this reporting date. It is the Company’s policy that any assessed penalties and interest on uncertain tax positions would be charged to income tax expense.

The Company does not provide for U.S. federal income taxes on the undistributed earnings of its foreign subsidiaries because such earnings are re-invested and, in the opinion of management, will continue to be re-invested indefinitely.

The Company files income tax returns, including returns for its subsidiaries, with federal, state, local and foreign jurisdictions. The Company is no longer subject to IRS examination for periods prior to 2009, although carryforward losses that were generated prior to 2010 may still be adjusted by the IRS if they are used in a future period. Additionally, the Company is no longer subject to examination in Israel for periods prior to 2009.

The Company files consolidated tax returns for its U.S. entities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 14:– INCOME TAXES (Cont.)

b. Israeli subsidiary (Epsilor-EFL):

Effective January 1, 2011 Epsilor-EFL's tax rate was 10% in 2011 and 2012 and will be reduced to 6% by 2015. In addition, dividends paid from the profits of Epsilor-EFL are subject to tax at the rate of 15% in the hands of their recipient and tax exempt on dividends paid to Israeli company. As of December 31, 2013, there are no tax exempt profits earned by Epsilor–EFL by Israel law that will be distributed as a dividend and accordingly no deferred tax liability was recorded as of December 31, 2013. Furthermore, management has indicated that it has no intention of declaring any dividend.

On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013-2014), 2013 (hereinafter - the 2013 Amendments) was published in Reshumot (the Israeli government official gazette), which enacts, among other things, the following amendments:

- Raising the corporate tax rate to 26.5% (instead of 25%) beginning in 2014 and thereafter.

- Commencing tax year 2014 and thereafter the tax rate on the income of preferred enterprises of a qualifying Company in Development Zone A as stated in the Encouragement of Capital Investment Law, 1959 (hereinafter - the Encouragement Law) shall increase to 9% (instead of 7% in 2014 and 6% in 2015 and thereafter) and for companies located in zones other than Zone A the rate shall increase to 16% (instead of 12.5% in 2014 and 12% in 2015 and thereafter).

- In addition, the tax rate on dividends distributed on January 1, 2014 and thereafter originating from preferred income under the Encouragement Law will be raised to 20% (instead of 15%).

c. Merger of Epsilor and EFL:

On June 25, 2009, two of the Company's Israeli subsidiaries, Epsilor and EFL, entered into a merger agreement pursuant to which EFL merged all of its assets and liabilities into Epsilor, with Epsilor the survivor of the merger (the "Merged Company").

Through the merger date, EFL accumulated certain tax losses (the "EFL Loss"). 20% of the EFL Loss was cancelled and is not available to offset any future income. The remaining amount of the EFL Loss (the "Remaining Loss") was absorbed into the Merged Company and is available to offset the Merged Company's income after July 1, 2009; provided that for the 16 tax years following the merger, losses will not be available to offset the Merged Company's income in excess of the lesser of (i) 6.25% of the original amount of the Remaining Loss, or (ii) 50% of the Merged Company's total taxable income in that year prior to giving effect to the application of any of the EFL Loss.

As of December 31, 2013, the Merged Company has tax loss carryforwards, generated by EFL, of $95,762,000, which is available indefinitely to offset future taxable income.

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AROTECH CORPORATION AND SUBSIDIARIES
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NOTE 14:– INCOME TAXES (Cont.)

d. Consolidated deferred income taxes:

Deferred income taxes reflect tax credit carryforwards and the net tax effects of temporary differences between the carrying amounts of asse and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred ta assets are as follows:

	December 31,	
	2013	2012
U.S. operating loss carryforward	$ 15,836,153	$ 17,286,287
Foreign operating loss carryforward	23,852,782	21,366,068
Total operating loss carryforward	39,688,935	38,652,355
Temporary differences:		
Compensation and benefits	2,321,718	2,026,176
Warranty reserves	1,165,515	1,005,118
Foreign temporary differences	445,129	797,247
All other temporary differences	2,321,650	1,461,543
Total temporary differences	6,254,012	5,290,084
Deferred tax asset before valuation allowance	45,942,947	43,942,439
Valuation allowance	(45,942,947)	(43,942,439)
Total deferred tax asset	$ –	$ –
Deferred tax liability	$ 5,423,275	$ 4,920,021

The Company provided valuation allowances for the deferred tax assets resulting from tax loss carryforwards and other temporary differences. Management currently believes that it is more likely than not that the deferred tax assets related to the operating loss carryforwards and other temporary differences will not be realized. The change in the valuation allowance during 2013 was $(2.0 million).

e. Income (loss) from continuing operations before taxes on income are as follows:

	Year ended December 31	
	2013	2012
Domestic	$ 4,215,005	$ 260,481
Foreign	(888,315)	(1,660,719)
	$ 3,326,690	$ (1,400,238)

f. Taxes on income were comprised of the following:

	Year ended December 31	
	2013	2012
Current federal taxes	$ 117,448	$ –
Current state and local taxes	327,747	29,656
Deferred taxes	481,052	598,500

Taxes in respect of prior years	126,473	–
Expense	$ 1,052,720	$ 628,156
Domestic	$ 926,247	$ 628,156
Foreign	126,473	–
Expense	$ 1,052,720	$ 628,156

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AROTECH CORPORATION AND SUBSIDIARIES
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In U.S. dollars

NOTE 14:– INCOME TAXES (Cont.)

g. A reconciliation between the theoretical tax expense, assuming all income is taxed at the U.S. federal statutory tax rate applicable to income of the Company and the actual tax expense as reported in the Statements of Operations is as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
Income (loss) from continuing operations before taxes	$ 3,326,690	$ (1,400,238)
Statutory tax rate	34%	34%
Theoretical income tax on the above amount at the U.S. statutory tax rate	$ 1,131,075	$ (476,081)
Deferred taxes for which valuation allowance was provided	(797,899)	860,390
Non-deductible credits	67,928	64,726
State taxes, net of federal benefit	327,747	29,656
Foreign income in tax rates other than U.S. rate	79,948	149,465
Taxes in respect of prior years	126,473	–
Alternative minimum tax for which valuation allowance was provided	117,448	–
Actual tax expense	$ 1,052,720	$ 628,156

NOTE 15:– SELECTED STATEMENTS OF OPERATIONS DATA

Financial income (expense), net:

	Year ended December 31, 2013	Year ended December 31, 2012
Financial expenses:		
Interest, bank charges and fees	$ (563,252)	$ (588,678)
Foreign currency transaction differences	(16,418)	(9,701)
Other	(37,205)	(15,668)
Total financial expenses	(616,875)	(614,047)
Financial income:		
Foreign currency transaction differences	117,603	66,061
Total financial income	117,603	66,061
Total financial income (expense), net	$ (499,272)	$ (547,986)

NOTE 16:– SEGMENT INFORMATION

a. General:

The Company operates in two continuing business segments (see Note 1.a. for a brief description of the Company's business).

The Company's reportable segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on two primary factors: the segment's operating income and the segment's contribution to the Company's future strategic growth.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 16:– SEGMENT INFORMATION (Cont.)

b. The following is information about reported segment gains, losses and assets:

	Training and Simulation Division	Battery and Power Systems Division	Corporate Expenses	Discontinued operations	Total Company
2013					
Revenues from outside customers	$ 63,425,319	$ 25,146,109	$ –	$ –	$ 88,571,428
Depreciation and amortization expenses [1]	(988,893)	(1,272,399)	(26,259)	–	(2,287,551)
Direct expenses [2]	(53,143,411)	(23,665,489)	(5,649,015)	–	(82,457,915)
Segment net income (loss)	9,293,015	208,221	(5,675,274)	–	3,825,962
Financial expenses	(44,146)	(30,733)	(424,393)	–	(499,272)
Income tax expense	319,225	134,995	598,500	–	1,052,720
Net income (loss) – continuing operations	8,929,644	42,493	(6,698,167)	–	2,273,970
Net loss – discontinued operations	–	–	–	(121,619)	(121,619)
Net income (loss)	$ 8,929,644	$ 42,493	$ (6,698,167)	$ (121,619)	$ 2,152,351
Segment assets	$ 53,424,900	$ 26,346,840	$ 882,902	$ –	$ 80,654,642
Additions to long-lived assets	$ 409,805	$ 1,294,980	$ –	$ –	$ 1,704,785
2012					
Revenues from outside customers	$ 59,270,768	$ 20,779,666	$ –	$ –	$ 80,050,434
Depreciation and amortization expenses [1]	(1,105,958)	(1,118,104)	(48,655)	–	(2,272,717)
Direct expenses [2]	(53,055,151)	(19,974,339)	(5,600,479)	–	(78,629,969)
Segment net income (loss)	5,109,659	(312,777)	(5,649,134)	–	(852,252)
Financial expense	(43,221)	(7,639)	(497,126)	–	(547,986)
Income tax expense (benefit)	(7,688)	–	635,844	–	628,156
Net income (loss) – continuing operations	5,074,126	(320,416)	(6,782,104)	–	(2,028,394)
Net loss – discontinued operations	–	–	–	(988,283)	(988,283)
Net income (loss)	$ 5,074,126	$ (320,416)	$ (6,782,104)	$ (988,283)	$ (3,016,677)
Segment assets	$ 51,302,000	$ 26,013,955	$ 174,791	$ 389,272	$ 77,880,018
Additions to long-lived assets	$ 550,634	$ 734,198	$ –	$ –	$ 1,284,832

(1) Includes depreciation of property and equipment and amortization expenses of intangible assets.
(2) Including, *inter alia*, sales and marketing, general and administrative, research and development and other income.

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In U.S. dollars

NOTE 16:– SEGMENT INFORMATION (Cont.)

c. Summary information about geographic areas:

The following presents total revenues according to the locations of the Company's end customers and long-lived assets as of and for the years ended December 31, 2013 and 2012:

	2013		2012	
	Total revenues	Long-lived assets	Total revenues	Long-lived assets
U.S.A.	$ 73,973,996	$ 28,506,630	$ 63,751,882	$ 28,879,572
Israel	9,109,921	8,504,224	7,485,034	8,385,579
Hong Kong	1,460,000	–	1,098,346	–
Canada	790,363	–	1,167,656	–
Saudi Arabia	424,444	–	65,090	–
Germany	372,446	–	1,517,200	–
India	325,782	–	605,966	–
Greece	249,500	–	60	–
Taiwan	231,267	–	1,349,420	–
China	203,563	–	98,832	–
Slovenia	191,163	–	–	–
Mexico	94,595	–	283,584	–
Korea	51,920	–	1,198,663	–
Ecuador	–	–	139,845	–
Thailand	–	–	137,970	–
U.A.E.	–	–	109,604	–
Other	1,092,468	–	1,041,282	–
	$ 88,571,428	$ 37,010,854	$ 80,050,434	$ 37,265,151

d. Revenues from major customers (as a percentage of consolidated revenues):

Other than for sales to various branches of the United States Military, which accounted for 55% and 54% of consolidated continuing revenues for 2013 and 2012, respectively, no single customer accounted for more than 10% of revenues for either year.

e. Revenues from major products:

	Year ended December 31,	
	2013	2012
Simulators	$ 63,425,319	$ 59,270,768
Batteries and charging systems	21,073,942	16,992,720
Water activated batteries	4,072,167	3,786,946
Total	$ 88,571,428	$ 80,050,434

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AROTECH CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 17:– WARRANTY

The following is a summary of the deferred warranty revenue included in total deferred revenue as of December 31, 2013 and 2012:

	Year ended December 31,	
	2013	2012
Balance at beginning of period	$ 2,682,462	$ 2,557,160
Deferred revenue	3,434,186	2,396,807
Revenue recognized	(2,910,279)	(2,271,505)
Balance at end of period	$ 3,206,369	$ 2,682,462

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In U.S. dollars

FINANCIAL STATEMENT SCHEDULE

Arotech Corporation and Subsidiaries

Schedule II – Valuation and Qualifying Accounts

For the Years Ended December 31, 2013 and 2012

Description	Balance at beginning of period	Reductions	Additions	Balance at end of period
Year ended December 31, 2013				
Allowance for doubtful accounts	$ –	$ –	$ –	$ –
Valuation allowance for deferred taxes	43,942,000	–	2,000,947	45,942,947
Year ended December 31, 2012				
Allowance for doubtful accounts	$ –	$ –	$ –	$ –
Valuation allowance for deferred taxes	43,681,000	–	261,000	43,942,000

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

¡ # **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012 .**

¸ # **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______ TO ______.**

Commission File Number: 0-23336

AROTECH CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**95-4302784**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1229 Oak Valley Drive, Ann Arbor, Michigan	**48108**
(Address of principal executive offices)	(Zip Code)

(800) 281-0356
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	The Nasdaq Stock Market LLC

Securities registered pursuant to section 12(g) of the Act: **Common Stock, $0.01 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** ¸ **No** ¡

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes** ¸ **No** ¡

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: **Yes** ¡ **No** ¸

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** ¡ **No** ¸

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer: ¨ Accelerated filer: ¨ Non-accelerated filer: ¨ Smaller reporting company: ¡

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). **Yes** ¨ **No** ¡

The aggregate market value of the registrant’s voting stock held by non-affiliates of the registrant as of June 29, 2012 was approximately $13,134,959 (based on the last sale price of such stock on such date as reported by The Nasdaq Global Market and assuming, for the purpose of this calculation only, that all of the registrant’s directors and executive officers are affiliates).

(Applicable only to corporate registrants) Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date: **16,174,187 as of 3/31/2013**

Documents incorporated by reference: **None**

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PRELIMINARY NOTE

This annual report contains historical information and forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our business, financial condition and results of operations. The words “estimate,” “project,” “intend,” “expect” and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Further, we operate in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond our control. In the context of the forward-looking information provided in this annual report and in other reports, please refer to the discussions of risk factors detailed in, as well as the other information contained in, our other filings with the Securities and Exchange Commission.

Electric Fuel® is a registered trademark and Arotech™ is a trademark of Arotech Corporation, formerly known as Electric Fuel Corporation. All company and product names mentioned may be trademarks or registered trademarks of their respective holders. Unless otherwise indicated, “we,” “us,” “our” and similar terms refer to Arotech and its subsidiaries.

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PART I

ITEM 1. BUSINESS

General

We are a defense and security products and services company, engaged in two business areas: interactive simulation for military, law enforcement and commercial markets; and batteries and charging systems for the military. We operate primarily through our various subsidiaries, which we have organized into two divisions. Our divisions and subsidiaries (both 100% owned by us) are as follows:

- We develop, manufacture and market advanced high-tech multimedia and interactive digital solutions for use-of-force training and driving training of military, law enforcement, security and other personnel through our ***Training and Simulation Division***:
  - We provide simulators, systems engineering and software products to the United States military, government and private industry through our subsidiary FAAC Incorporated, located in Ann Arbor, Michigan (“FAAC”); and
  - Through FAAC, we provide specialized “use of force” training for police, security personnel and the military under the trade name IES Interactive Training (“IES”).
- We manufacture and sell lithium and Zinc-Air batteries for defense and security products, including our Soldier Wearable Integrated Power Equipment System (SWIPES)™ power hubs, and other military applications through our ***Battery and Power Systems Division***:
  - We develop and sell rechargeable and primary lithium batteries and smart chargers to the military and to private defense industry in the Middle East, Europe and Asia under our Epsilor nameplate (“Epsilor”), through our subsidiary Epsilor-Electric Fuel, Ltd. (“Epsilor-EFL”), at Epsilor-EFL’s facilities located in Dimona, Israel (in Israel’s Negev desert area);
  - We develop, manufacture and market primary Zinc-Air batteries, rechargeable batteries and battery chargers for the military, focusing on applications that demand high energy and light weight, as well as our Soldier Wearable Integrated Power Equipment System (SWIPES)™ power hub product, through our subsidiary Electric Fuel Battery Corporation, located in Auburn, Alabama (“EFB”); and
  - We produce water-activated lifejacket lights for commercial aviation and marine applications under our Electric Fuel nameplate (“EFL”), at Epsilor-EFL’s facilities located in Beit Shemesh, Israel (between Jerusalem and Tel-Aviv).

Background

We were incorporated in Delaware in 1990 under the name “Electric Fuel Corporation,” and we changed our name to “Arotech Corporation” on September 17, 2003. Unless the context requires otherwise, all references to us refer collectively to Arotech Corporation and Arotech’s wholly-owned Israeli subsidiary Epsilor-EFL; and Arotech’s wholly-owned United States subsidiaries, EFB and FAAC. Additionally, we operate under the trade names of IES Interactive Training (“IES”), Realtime Technologies (“RTI”) and Electric Fuel Limited (“EFL). Unless otherwise indicated, all reported figures include only these operations and exclude the discontinued Armor segment.

Between 2002 and December 2011, we were also engaged in utilizing advanced engineering concepts to manufacture military and paramilitary armored vehicles, and employing sophisticated lightweight materials to produce aviation armor, through our Armor Division. In December 2011, our Board of Directors approved management’s plan to sell our Armor Division in order to focus on the more profitable and growth-oriented aspects of our business. We completed the sale of our Armor Division in June 2012.

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For financial information concerning the business segments in which we operate, see Note 16.b. of the Notes to the Consolidated Financial Statements. For financial information about geographic areas in which we engage in business, see Note 16.c. of the Notes to the Consolidated Financial Statements.

Facilities

Our principal executive offices are located at 1229 Oak Valley Drive, Ann Arbor, Michigan 48108, and our toll-free telephone number at our executive offices is (800) 281-0356. Our corporate website is www.arotech.com. Our periodic reports, as well as recent filings relating to transactions in our securities by our executive officers and directors, that have been filed with the Securities and Exchange Commission in EDGAR format are made available through hyperlinks located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Reference to our websites does not constitute incorporation of any of the information thereon or linked thereto into this annual report.

The offices and facilities of Epsilor-EFL are located in Israel (in Beit Shemesh and Dimona, both of which are within Israel's pre-1967 borders). Most of the members of our senior management work extensively out of Epsilor-EFL's facilities in Beit Shemesh; our financial operations are conducted primarily from our principal executive offices in Ann Arbor. FAAC's home offices and facilities are located in Ann Arbor, Michigan, Royal Oak, Michigan and Orlando, Florida. The facilities of EFB are located in Auburn, Alabama.

Training and Simulation Division

We develop, manufacture and market advanced high-tech multimedia and interactive digital solutions for use-of-force training and driver training of military, law enforcement, security and other personnel through our Training and Simulation Division, the larger of our two divisions. During 2012 and 2011, revenues from our Training and Simulation Division were approximately $59.3 million and $42.9 million, respectively.

The Training and Simulation Division concentrates on three different product areas:

× ¨ ¨ Our *Vehicle Simulation* group provides high fidelity vehicle simulators for use in operator training and is marketed under our FAAC and Realtime Technologies nameplates;

× ¨ ¨ Our *Military Operations* group provides weapon simulations used to train military pilots in the effective use of air launched weapons and is also marketed under our FAAC nameplate; and

× ¨ ¨ Our *Use of Force* group provides training products focused on the proper employment of hand carried weapons and is marketed under our IES Interactive Training nameplate.

Vehicle Simulation

We provide simulators, systems engineering and software products focused on training vehicle operators for cars and trucks. We provide these products to the United States military, government, municipalities, and private industry through our FAAC nameplate. Our fully interactive driver-training systems feature state-of-the-art vehicle simulator technology enabling training in situation awareness, risk analysis and decision making, emergency reaction and avoidance procedures, and proper equipment operation techniques. Our simulators have successfully trained hundreds of thousands of drivers.

Our Vehicle Simulation group focuses on the development and delivery of complete driving simulations for a wide range of vehicle types – such as trucks, automobiles, subway trains, buses, fire trucks, police cars, ambulances, airport ground vehicles, and military vehicles. In 2012, our Vehicle Simulations group accounted for approximately 8.8% of our Training and Simulation Division's revenues.

We believe that we have held a dominant market share in U.S. military wheeled vehicle operator driver training simulators since 1999 and that we are currently one of three significant participants in the U.S. municipal wheeled vehicle simulators market.

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In January 2008, we added Realtime Technologies Incorporated to our Vehicle Simulation group. RTI specializes in multi-body vehicle dynamics modeling and graphical simulation solutions. RTI offers simulation software applications, consulting services, and custom software and hardware development services primarily for use by the automobile industry and universities engaged in the study of vehicle performance or operator/vehicle interactions. We merged RTI into FAAC in January 2010.

Military Operations

In the area of Military Operations, we believe we are a premier developer of validated, high fidelity analytical models and simulations of tactical air and land warfare systems for all branches of the Department of Defense and its related industrial contractors. Our simulations are found in systems ranging from instrumented air combat and maneuver training ranges (such as Top Gun), full task training devices such as the F-18 Weapon Tactics Trainer, and in the on-board computer of many fighter jet aircraft. We supply on-board software to support weapon launch decisions for the F-15, F-16, F-18, F-22 and Joint Strike Fighter (JSF) fighter aircraft. Additionally, FAAC is a prime contractor in respect of the U.S. Army's Virtual Clearance Training Suite (VCTS) program. In 2012, our Military Operations group (including VCTS) accounted for 78.0% of our Training and Simulation Division's revenues. Our VCTS project accounted for 56.0 % of our Training and Simulation Division's revenues.

Use-of-Force

We are a leading provider of interactive, multimedia, fully digital training simulators for law enforcement, security, military and similar applications. With a large customer base spread over twenty countries around the world, we are a leader in the supply of simulation training products to law enforcement, governmental, and commercial clients. We conduct our interactive training activities and market our interactive training products, such as the MILO (Multiple Interactive Learning/training Objectives) System, the A2Z Classroom Trainer (a state-of-the-art Computer Based Training (CBT) system that allows students to interact with realistic interactive scenarios projected life-size in the classroom), and the Range FDU (firearm diagnostics unit), using our IES Interactive Training nameplate. In 2012, our Use of Force group accounted for 9.8% of our Training and Simulation Division's revenues.

Warranty

We typically offer a one to two year warranty for most of our products. Additionally, we sell extended warranties to our existing customers. In 2012, warranty revenue accounted for 3.4% of our Training and Simulation Division's revenues.

Marketing and Customers

We market our Simulation Division products to all branches of the U.S. military, federal and local government, municipal transportation departments, and public safety groups. Municipalities throughout the U.S. are using our vehicle simulators and use-of-force products, and our penetration in Asia, Europe and the Americas continues through the use of commissioned sales agents and regional distributors.

We have long-term relationships, many of over ten years' duration, with the U.S. Air Force, U.S. Navy, U.S. Army, U.S. Marine Corps, Department of Homeland Security, and most major Department of Defense training and simulation prime contractors and related subcontractors. The quality of our customer relationships is illustrated by the multiple program contract awards we have earned from many of our customers.

Competition

Our technical excellence, superior product reliability, and high customer satisfaction have enabled us to develop market leadership and attractive competitive positions in each of our product areas.

Vehicle Simulators

Several potential competitors in this segment are large, diversified defense and aerospace conglomerates who do not focus on our specific niches. As such, we are able to provide service on certain large military contracts through strategic agreements with these organizations or can compete directly with these organizations based on our strength in developing higher quality software solutions. In municipal market

applications, we compete against smaller, less sophisticated software companies. Many of our competitors have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours.

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Military Operations

Currently no significant competitors participate in the markets we serve around our weapon simulation niche. Our over 30-year history in this space provides a library of resources that would require a competitor to invest heavily in to offer a comparable product. The companies that could logically compete with us if they chose would be the companies that now subcontract this work to us: Boeing, Raytheon and Cubic.

Use of Force

We compete against a number of established companies that provide similar products and services, many of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours. There are also companies whose products do not compete directly, but are sometimes closely related. Firearms Training Systems, Inc., Advanced Interactive Systems, Inc., and LaserShot Inc. are our main competitors in this space.

Battery and Power Systems Division

We manufacture and sell Lithium and Zinc-Air batteries for defense and security products and other military applications through our Battery and Power Systems Division. During 2012 and 2011, revenues from our Battery and Power Systems Division were approximately $20.8 million and $19.3 million, respectively.

Lithium Batteries and Charging Systems for the Military

Introduction

We sell lithium batteries and charging systems, including the SWIPES™ power hubs we produce for the Army's Soldier Warrior program, to the military through our subsidiaries Epsilor-EFL and EFB.

We specialize in the design and manufacture of primary and rechargeable batteries, related electronic circuits and associated chargers for military applications. We have experience in working with government agencies, the military and large corporations. Our technical team has significant expertise in the fields of electrochemistry, electronics, software and battery design, production, packaging and testing.

Our Soldier Wearable Integrated Power Equipment System, or SWIPES™, power hub utilizes the MOLLE vest and integrates force protection electronics and communications equipment with an advanced battery. The system utilizes a modular power distribution system that is powered by BA-8180/U, BA-8140/U Zinc-air batteries or the LI-145, BB2590 rechargeable batteries for direct power of equipment, allowing for extended mission times without the burden of power source swaps or charging due to their high energy density, and reducing battery weight soldiers carry by up to 30%. The batteries continuously charge the secondary batteries inside various devices, such as two way radios, GPS units and shot detection systems. The SWIPES™ product allows for individual tailoring by the warfighter and is designed to accept new applications as they become available. The SWIPES™ power hub was recognized by the U.S Army Research, Development and Engineering Command as one of the U.S. Army's ten greatest inventions of 2010.

Competition

The main competitors for our lithium-ion battery products are Bren-tronics Inc. in the United States, which controls much of the U.S. rechargeable market, ABSL Power Solutions Limited (a wholly owned subsidiary of CIP Industries Incorporated LLP) in the United Kingdom, which has the majority of the English military market, and Ultralife Batteries, Inc. in the United States. On the primary end of the market there are a host of players who include the cell manufacturers themselves, including Saft S.A. and Ultralife Batteries, Inc.

It should be noted that a number of OEMs, such as Motorola, have internal engineering groups that can develop competitive products in-house. Additionally, many of our competitors have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours.

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Marketing

We market to our existing customers through direct sales. To generate new customers and applications, we rely on our working relationship with a selection of OEMs, with the intent of having these OEMs design our products into their equipment, thereby creating a market with a high entry barrier. Another avenue for market entry is via strategic relationships with major cell manufacturers. We are now starting direct marketing efforts to emerging markets where we believe the number of local mature competitors is limited.

Manufacturing

Our battery production lines for military batteries and chargers have been ISO-9001 certified since 1994. We believe that Epsilor-EFL's 23,000 square foot facility in Dimona, Israel has the necessary capabilities and operations to support our production cycle.

Zinc-Air Batteries and Chargers for the Military

Introduction

We base our strategy in the field of Zinc-Air military batteries on the development and commercialization of our Zinc-Air battery technology, as applied in the batteries we produce for the U.S. Army's Communications and Electronics Command (CECOM), through our subsidiary EFB. We will continue to seek new applications for our technology in defense projects, wherever synergistic technology and business benefits may exist. We intend to continue to develop our battery products for defense agencies, and plan to sell our products either directly to such agencies or through prime contractors. We will also look to extend our reach to military markets outside the United States.

Our batteries have been used in both Afghanistan (Operation Enduring Freedom) and in Iraq (Operation Iraqi Freedom). Our BA-8180/U Zinc-Air battery was recognized by the U.S Army Research, Development and Engineering Command as one of the U.S. Army's ten greatest inventions of 2003.

Our Zinc-Air batteries, rechargeable batteries and battery chargers for the military are manufactured through EFB. EFB's facilities have been granted ISO 9001 "Top Quality Standard" certification.

Markets/Applications

As an external alternative to the popular lithium based BA-5590/U, the BA-8180/U can be used in many applications operated by the BA-5590/U. The BA-8180/U can be used for a variety of military applications.

Customers

The principal customers for our Zinc-Air batteries during 2012 were the U.S. Army's Communications-Electronics Command (CECOM) and the Defense Logistics Agency (DLA). In addition, we continue to further penetrate Special Forces and other specific U.S. military units with direct sales.

Competition

The BA-8180/U is the only Zinc-Air battery to hold a U.S. Army battery designation and an NSN. It does, however, compete with other primary (disposable) batteries, and primarily lithium based batteries. In some cases it will also compete with rechargeable batteries.

Zinc-Air batteries are inherently safer than primary lithium battery packs in storage, transportation, use, and disposal, and are more cost-effective. They are lightweight, with up to twice the energy density of primary lithium battery packs. Zinc-Air batteries for the military are also under development by Rayovac Corporation. Rayovac's military Zinc-Air batteries utilize cylindrical cells, rather than the prismatic cells that we developed. While cylindrical cells may provide higher specific power than our prismatic cells, we believe they will generally have lower energy densities and be more difficult to manufacture.

The most popular competing primary battery in use by the US Armed Forces is the BA-5590/U, which uses lithium-sulfur dioxide ($LiSO_2$) cells. The largest suppliers of $LiSO_2$ batteries to the US military are believed to be Saft America Inc. and Eagle Picher Technologies LLC. The battery compartment of most military communications equipment, as well as other military equipment, is designed for the XX90

family of batteries, of which the BA-5590/U battery is the most commonly deployed. Another primary battery in this family is the BA-5390/U, which uses lithium-manganese dioxide ($LiMnO_2$) cells. Suppliers of $LiMnO_2$ batteries include Ultralife Batteries Inc., Saft and Eagle Picher.

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Rechargeable batteries in the XX90 family include lithium-ion (BB-2590/U) and nickel-metal hydride (BB-390/U) batteries which may be used in training missions in order to save the higher costs associated with primary batteries. These rechargeable batteries have also become more prevalent in combat use as their energy densities improve, their availability expands and their State-of-Charge Indicator (SOCI) technologies become more reliable.

Our BA-8180/U does not fit inside the XX90 battery compartment of any military equipment, and therefore is connected externally using an interface adapter that we also sell to the Army. Our battery offers greatly extended mission time, along with lower total mission cost, and these significant advantages often greatly outweigh the slight inconvenience of fielding an external battery.

Manufacturing

EFB maintains a battery and electronics development and manufacturing facility in Auburn, Alabama, housed in a 30,000-square-foot light industrial space leased from the City of Auburn. We also have production capabilities for some battery components at Epsilor-EFL's facility in Beit Shemesh, Israel. Both of these facilities have received ISO 9001 "Top Quality Standard" certification.

Lifejacket Lights

Products

We have a product line consisting of seven lifejacket light models, five for use with marine life jackets and two for use with aviation life vests, all of which work in both freshwater and seawater. Each of our lifejacket lights is certified for use by relevant governmental agencies under various U.S. and international regulations. We manufacture, assemble and package all our lifejacket lights through Epsilor-EFL in our factory in Beit Shemesh, Israel.

Marketing

We market our marine safety products through our own network of distributors in Europe, the United States, Asia and Oceania. We market our lights to the commercial aviation industry through an independent company that receives a commission on sales.

Competition

The largest manufacturer of aviation and marine safety products, including TSO and SOLAS-approved lifejacket lights, is ACR Electronics Inc. of Hollywood, Florida. Other significant competitors in the marine market include Daniamant Aps of Denmark and England, and SIC of Italy.

Backlog

We generally sell our products under standard purchase orders. Orders constituting our backlog are subject to changes in delivery schedules and are typically cancelable by our customers until a specified time prior to the scheduled delivery date. Accordingly, our backlog is not necessarily an accurate indication of future sales. As of December 31, 2012 and 2011, our backlog for the following year was approximately $87.7 million and $81.9 million, respectively, divided between our divisions as follows:

Division	2012	2011
Training and Simulation Division	$ 72,404,000	$ 71,732,000
Battery and Power Systems Division	15,293,000	10,196,000
TOTAL:	$ 87,697,000	$ 81,928,000

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Major Customers

During 2012 and 2011, including both of our divisions, various branches of the United States military accounted for approximately 54% and 46% of our revenues. See “Item 1A. Risk Factors – Risks Related to Government Contracts,” below.

Patents and Trade Secrets

We rely on certain proprietary technology and seek to protect our interests through a combination of patents, trademarks, copyrights, know-how, trade secrets and security measures, including confidentiality agreements. Our policy generally is to secure protection for significant innovations to the fullest extent practicable. Further, we seek to expand and improve the technological base and individual features of our products through ongoing research and development programs.

We rely on the laws of unfair competition and trade secrets to protect our proprietary rights. We attempt to protect our trade secrets and other proprietary information through confidentiality and non-disclosure agreements with customers, suppliers, employees and consultants, and through other security measures. However, we may be unable to detect the unauthorized use of, or take appropriate steps to enforce our intellectual property rights. Effective trade secret protection may not be available in every country in which we offer or intend to offer our products and services to the same extent as in the United States. Failure to adequately protect our intellectual property could harm or even destroy our brands and impair our ability to compete effectively. Further, enforcing our intellectual property rights could result in the expenditure of significant financial and managerial resources and may not prove successful. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful.

Research and Development

During the years ended December 31, 2012 and 2011, our gross research and product development expenditures were approximately $2.0 million and $1.4 million, respectively.

Employees

As of December 31, 2012, we had approximately 340 full-time employees worldwide. Our success will depend in large part on our ability to attract and retain skilled and experienced employees.

With respect to those of our employees who are Israeli residents, Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment without due cause; additionally, some of our senior employees have special severance arrangements, certain of which are described under “Item 11. Executive Compensation – Employment Contracts,” below. We currently partially fund our ongoing severance obligations by making monthly payments to approved severance funds or insurance policies.

ITEM 1A. RISK FACTORS

The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Report and presented elsewhere by management from time to time.

Business-Related Risks

We have had a history of losses and may incur future losses.

We were incorporated in 1990 and began our operations in 1991. We have funded our operations principally from funds raised in the initial public offering of our common stock in February 1994; subsequent public and private offerings of our common stock and equity and debt securities convertible or exercisable into shares of our common stock; research contracts and supply contracts; funds received under research and development grants from the Government of Israel; and sales of products that we and our subsidiaries manufacture. We have incurred significant net losses since our inception. Additionally, as of December 31, 2012, we had an accumulated deficit (including discontinued operations) of approximately $185.4 million. In an effort to reduce operating expenses and maximize available resources, we have consolidated certain of our subsidiaries, shifted personnel and reassigned responsibilities. We have also taken a variety of other measures to limit spending and will continue to assess our internal processes to seek additional cost-structure improvements. Although we believe that such

steps will help to reduce our operating expenses and maximize our available resources, there can be no assurance that we will ever be able to achieve or maintain profitability consistently or that our business will continue to exist.

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We need significant amounts of capital to operate and grow our business and to pay our debt.

We require substantial funds to operate our business, including marketing our products and developing and marketing new products and to pay our outstanding debt as it comes due. To the extent that we are unable to fully fund our operations, including repaying our outstanding debt, through profitable sales of our products and services, we will need to seek additional funding, including through the issuance of equity or debt securities. In addition, based on our internal forecasts, the assumptions described under "Liquidity and Capital Resources" below, and subject to the other risk factors described herein, we believe that our present cash position and anticipated cash flows from operations and lines of credit along with a lending commitment from a new lender should be sufficient to satisfy our current estimated cash requirements for 2013. However, in the event our internal forecasts and other assumptions regarding our liquidity prove to be incorrect, we may need to seek additional funding. There can be no assurance that we will obtain any such additional financing in a timely manner, on acceptable terms, or at all. If additional funds are raised by issuing equity securities or convertible debt securities, stockholders may incur further dilution. If we incur additional indebtedness, we may be subject to affirmative and negative covenants that may restrict our ability to operate or finance our business. If additional funding is not secured, we will have to modify, reduce, defer or eliminate parts of our present and anticipated future commitments and/or programs.

Our existing indebtedness may adversely affect our ability to obtain additional funds and may increase our vulnerability to economic or business downturns.

Our bank and other indebtedness (short and long term) totaled approximately $11.5 million as of December 31, 2012 (not including trade payables, other account payables, seller-financed mortgages, capital leases, and accrued severance pay), of which $9.8 million was bank working capital lines of credit. In addition, we may incur additional indebtedness in the future. Accordingly, we are subject to the risks associated with significant indebtedness, including:

… we must dedicate a portion of our cash flows from operations to pay principal and interest and, as a result, we may have less funds available for operations and other purposes;

… it may be more difficult and expensive to obtain additional funds through financings, if available at all;

… we are more vulnerable to economic downturns and fluctuations in interest rates, less able to withstand competitive pressures and less flexible in reacting to changes in our industry and general economic conditions; and

… if we default under any of our existing debt instruments, including paying the outstanding principal when due, and if our creditors demand payment of a portion or all of our indebtedness, we may not have sufficient funds to make such payments.

The occurrence of any of these events could materially adversely affect our results of operations and financial condition and adversely affect our stock price.

Failure to comply with the terms of our indebtedness could result in a default that could have material adverse consequences for us.

A failure to comply with the obligations contained in the agreements governing our indebtedness could result in an event of default under such agreements which could result in an acceleration of debt under other instruments evidencing indebtedness that contain cross-acceleration or cross-default provisions. If our indebtedness were to be accelerated, there can be no assurance that our future cash flow or assets would be sufficient to repay in full such indebtedness. In February 2013, our primary bank increased our credit line by 50%, from $10.0 million to $15.0 million, and the expiration of the credit line was extended to May 31, 2015. The new credit agreement also contains certain covenants for 2013, which are measured on a rolling twelve-month basis, limiting the Maximum Increase in Net Advance to Affiliates to less than 90% of EBITDA and meeting a Fixed Charge Coverage Ratio of not less than 1.1 to 1.0.

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We may not generate sufficient cash flow to service all of our debt obligations.

Our ability to make payments on our indebtedness and to fund our operations depends on our ability to generate cash in the future. Our future operating performance is subject to market conditions and business factors that are beyond our control. Consequently, we cannot assure you that we will generate sufficient cash flow to pay the principal and interest on our debt. If our cash flows and capital resources are insufficient to allow us to make scheduled payments on our debt, we may have to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our debt. We cannot assure you that the terms of our debt will allow for these alternative measures or that such measures would satisfy our scheduled debt service obligations. In addition, in the event that we are required to dispose of material assets or restructure or refinance our debt to meet our debt obligations, we cannot assure you as to the terms of any such transaction or how quickly such transaction could be completed. Our ability to refinance our indebtedness or obtain additional financing will depend on, among other things:

- our financial condition at the time;
- restrictions in the agreements governing our other indebtedness; and
- other factors, including the condition of the financial markets and our industry.

Our earnings may decline if we write off additional goodwill and other intangible assets.

As of December 31, 2012, we had recorded goodwill of $30.6 million and any future impairment of goodwill or other intangible assets may have a significant impact on earnings. Goodwill is not amortized, but is tested for impairment at the reporting unit level. Goodwill is required to be tested for impairment annually and between annual tests if events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. There are numerous risks that may cause the fair value of a reporting unit to fall below its carrying amount, which could lead to the measurement and recognition of goodwill impairment. These risks include, but are not limited to, adverse changes in legal factors or the business climate, an adverse action or assessment by a regulator, a more-likely-than-not expectation that all or a significant portion of a reporting unit may be disposed of, a sustained decline in our market capitalization, significant negative variances between actual and expected financial results, and lowered expectations of future financial results.

Some of the components of our products pose potential safety risks which could create potential liability exposure for us.

Some of the components of our products contain elements that are known to pose potential safety risks. In addition to these risks, there can be no assurance that accidents in our facilities will not occur. Any accident, whether occasioned by the use of all or any part of our products or technology or by our manufacturing operations, could adversely affect commercial acceptance of our products and could result in significant production delays or claims for damages resulting from injuries. Any of these occurrences would materially adversely affect our operations and financial condition. In the event that our products fail to perform as specified, users of these products may assert claims for substantial amounts. These claims could have a materially adverse effect on our financial condition and results of operations. There is no assurance that the amount of the general product liability insurance that we maintain will be sufficient to cover potential claims or that the present amount of insurance can be maintained at the present level of cost, or at all.

We are subject to the Dodd-Frank Wall Street Reform and Consumer Protection Act disclosure requirements regarding the use of "conflict minerals"

Beginning in 2014, the Dodd-Frank Wall Street Reform and Consumer Protection Act will impose new disclosure requirements regarding the use of "conflict minerals" mined from the Democratic Republic of Congo and adjoining countries in products, whether or not these products are manufactured by third parties. The definition of "conflict minerals" includes tin, tantalum, tungsten and gold, and their derivatives, some of which we use in the activities of our Battery Division. These new requirements could affect the pricing, sourcing and availability of minerals used in the manufacture of our products. There will be additional costs associated with complying with the disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. Our supply chain is complex and we may be unable to verify the origins for all metals used in our products. We may also encounter challenges with our customers and stockholders if we are unable to certify that our products are conflict free.

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Our fields of business are highly competitive.

The competition to develop defense and security products and to obtain funding for the development of these products is, and is expected to remain, intense.

Our defense and security products compete with other manufacturers of specialized training systems.

Various battery technologies are being considered for use in defense and safety products by other manufacturers and developers, including the following: lead-acid, nickel-cadmium, nickel-iron, nickel-zinc, nickel-metal hydride, sodium-sulfur, sodium-nickel chloride, zinc-bromine, lithium-ion, lithium-polymer, lithium-iron sulfide, primary lithium, rechargeable alkaline and Zinc-Air.

Many of our competitors have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours. If we are unable to compete successfully in each of our operating areas, our business and results of operations could be materially adversely affected.

Our business is dependent on proprietary rights that may be difficult to protect and could affect our ability to compete effectively.

Our ability to compete effectively will depend on our ability to maintain the proprietary nature of our technology and manufacturing processes through a combination of patent and trade secret protection, non-disclosure agreements and licensing arrangements.

Litigation, or participation in administrative proceedings, may be necessary to protect our proprietary rights. This type of litigation can be costly and time consuming and could divert company resources and management attention to defend our rights, and this could harm us even if we were to be successful in the litigation. In the absence of patent protection, and despite our reliance upon our proprietary confidential information, our competitors may be able to use innovations similar to those used by us to design and manufacture products directly competitive with our products. In addition, no assurance can be given that others will not obtain patents that we will need to license or design around. To the extent any of our products are covered by third-party patents, we could need to acquire a license under such patents to develop and market our products.

Despite our efforts to safeguard and maintain our proprietary rights, we may not be successful in doing so. In addition, competition is intense, and there can be no assurance that our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technology. In the event of patent litigation, we cannot assure you that a court would determine that we were the first creator of inventions covered by our issued patents or pending patent applications or that we were the first to file patent applications for those inventions. If existing or future third-party patents containing broad claims were upheld by the courts or if we were found to infringe third-party patents, we may not be able to obtain the required licenses from the holders of such patents on acceptable terms, if at all. Failure to obtain these licenses could cause delays in the introduction of our products or necessitate costly attempts to design around such patents, or could foreclose the development, manufacture or sale of our products. We could also incur substantial costs in defending ourselves in patent infringement suits brought by others and in prosecuting patent infringement suits against infringers.

We also rely on trade secrets and proprietary know-how that we seek to protect, in part, through non-disclosure and confidentiality agreements with our customers, employees, consultants, and entities with which we maintain strategic relationships. We cannot assure you that these agreements will not be breached, that we would have adequate remedies for any breach or that our trade secrets will not otherwise become known or be independently developed by competitors.

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We are dependent on key personnel and our business would suffer if we fail to retain them.

We are highly dependent on the president of our FAAC subsidiary and the general managers of our Epsilor-EFL subsidiary and the loss of the services of either or both of these persons could adversely affect us. We are especially dependent on the services of our Chairman and Chief Executive Officer, Robert S. Ehrlich, and our President, Steven Esses. The loss of either Mr. Ehrlich or Mr. Esses could have a material adverse effect on us. We are party to employment agreements with Mr. Ehrlich and Mr. Esses, both which agreements expire at the end of 2013. We do not have key-man life insurance on either Mr. Ehrlich or Mr. Esses.

We face risks related to general domestic and global economic conditions.

In general, our operating results can be significantly affected by negative economic conditions, high labor, material and commodity costs and unforeseen changes in demand for our products and services. These risks are heightened as economic conditions globally have deteriorated significantly and may remain at recessionary levels for the foreseeable future. The current recessionary conditions could have a potentially significant negative impact on demand for our products and services, which may have a direct negative impact on our sales and profitability, as well as our ability to generate sufficient internal cash flows or access credit at reasonable rates to meet future operating expenses, service debt and fund capital expenditures.

We face risks related to the current credit crisis.

Disruption in credit markets may impact demand for our products and services, as well as our ability to manage normal relationships with our customers, suppliers and creditors. Tighter credit markets could result in supplier or customer disruptions.

The potential bankruptcy of certain suppliers could leave us exposed to certain risks of collection of outstanding receivables. If any of our suppliers declare bankruptcy, this could have a material adverse effect on our business, financial condition and results of operations.

There are risks involved with the international nature of our business.

A significant portion of our sales are made to customers located outside the U.S., primarily in Europe and Asia. In 2012 and 2011, 20.4% and 26.7%, respectively, of our revenues, were derived from sales to customers located outside the U.S. We expect that our international customers will continue to account for a substantial portion of our revenues in the near future. Sales to international customers may be subject to political and economic risks, including political instability, currency controls, exchange rate fluctuations, foreign taxes, longer payment cycles and changes in import/export regulations and tariff rates. In addition, various forms of protectionist trade legislation have been and in the future may be proposed in the U.S. and certain other countries. Any resulting changes in current tariff structures or other trade and monetary policies could adversely affect our sales to international customers. See also "Israel-Related Risks," below.

Risks Related to Government Contracts

A significant portion of our business is dependent on government contracts and reduction or reallocation of defense or law enforcement spending could reduce our revenues.

Many of our Training and Simulation Division's customers to date have been in the public sector of the U.S., including the federal, state and local governments, and in the public sectors of a number of other countries. Additionally, the majority of EFB's sales to date of battery products for the military and defense sectors have been in the public sector in the United States. A significant decrease in the overall level or allocation of defense or law enforcement spending in the U.S. or other countries could reduce our revenues and have a material adverse effect on our future results of operations and financial condition.

Sales to public sector customers are subject to a multiplicity of detailed regulatory requirements and public policies as well as to changes in training and purchasing priorities. Contracts with public sector customers may be conditioned upon the continuing availability of public funds, which in turn depends upon lengthy and complex budgetary procedures, and may be subject to certain pricing constraints. Moreover, U.S. government contracts and those of many international government customers may generally be terminated for a variety of factors when it is in the best interests of the government and contractors may be suspended or debarred for misconduct at the discretion of the government. There can be no assurance that these factors or others unique to government contracts or the loss or suspension of necessary regulatory licenses will not reduce our revenues and have a material adverse effect on our future results of operations and financial condition.

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A decline in the U.S. Government defense budget, changes in budgetary priorities or timing of contract awards may adversely affect our future revenues and limit our growth prospects.

Revenues under contracts with the U.S. Department of Defense ("DoD"), either as a prime contractor or subcontractor to other contractors, represent a substantial portion of our total revenues. Our operating results could be adversely affected by spending caps or changes in the budgetary priorities of the U.S. Government or the DoD, as well as delays in program starts or the award of contracts or task orders under contracts.

In August 2011, Congress enacted the Budget Control Act of 2011 (the "Budget Control Act") which, while raising the existing statutory limit on the amount of permissible federal debt, also committed the U.S. government to significantly reducing the federal deficit over ten years. The Budget Control Act established caps on discretionary spending through 2021, reducing federal spending by approximately $940 billion relative to the fiscal year 2012 Presidential Budget submission. It also established a Joint Committee of Congress (the "Joint Committee") that was responsible for identifying an additional $1.2 to $1.5 trillion in deficit reductions by November 23, 2011. The Joint Committee was unable to identify the additional deficit reductions by this deadline thereby triggering a second provision of the Budget Control Act called "sequestration," which calls for very substantial automatic spending cuts split between defense and non-defense programs originally scheduled to start in January 2013 and continue over a nine-year period. While the sequestration that was scheduled to begin in January 2013 has been deferred until March 2013, and members of Congress are discussing various options to prevent or further defer sequestration and the automatic spending cuts scheduled to begin in March 2013, we cannot predict whether any such efforts will succeed.

While the impact of sequestration is yet to be determined, automatic across-the-board cuts would approximately double the $487 billion top-line reduction already reflected in the defense funding over a ten-year period, with a $52 billion reduction occurring in the government's fiscal year 2013. The resulting automatic across-the-board budget cuts in sequestration could have significant consequences to our business and industry. While it is unclear whether sequestration will occur and what the exact impact of it would be, we are continuously reviewing our operations in an attempt to identify those programs that could be at risk so that we can make appropriate contingency plans. These or other factors could result in a significant decline in, or redirection of, current and future budgets and could adversely affect our operating performance, including the possible loss of revenue and reduction in our operating cash flow.

Our U.S. government contracts may be terminated at any time and may contain other unfavorable provisions.

The U.S. government typically can terminate or modify any of its contracts with us either for its convenience or if we default by failing to perform under the terms of the applicable contract. A termination arising out of our default could expose us to liability and have a material adverse effect on our ability to re-compete for future contracts and orders. Our U.S. government contracts contain provisions that allow the U.S. government to unilaterally suspend us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations, reduce the value of existing contracts, issue modifications to a contract and control and potentially prohibit the export of our products, services and associated materials.

Government agencies routinely audit government contracts. These agencies review a contractor's performance on its contract, pricing practices, cost structure and compliance with applicable laws, regulations and standards. If we are audited, we will not be reimbursed for any costs found to be improperly allocated to a specific contract, while we would be required to refund any improper costs for which we had already been reimbursed. Therefore, an audit could result in a substantial adjustment to our revenues. If a government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or debarment from doing business with United States government agencies. We could suffer serious reputational harm if allegations of impropriety were made against us. A governmental determination of impropriety or illegality, or an allegation of impropriety, could have a material adverse effect on our business, financial condition or results of operations.

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We may be liable for penalties under a variety of procurement rules and regulations, and changes in government regulations could adversely impact our revenues, operating expenses and profitability.

Our defense and commercial businesses must comply with and are affected by various government regulations that impact our operating costs, profit margins and our internal organization and operation of our businesses. Among the most significant regulations are the following:

- the U.S. Federal Acquisition Regulations, which regulate the formation, administration and performance of government contracts;
- the U.S. Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations; and
- the U.S. Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under certain cost-based government contracts.

These regulations affect how we and our customers do business and, in some instances, impose added costs on our businesses. Any changes in applicable laws could adversely affect the financial performance of the business affected by the changed regulations. With respect to U.S. government contracts, any failure to comply with applicable laws could result in contract termination, price or fee reductions or suspension or debarment from contracting with the U.S. government.

We may not be able to receive or retain the necessary licenses or authorizations required for us to export or re-export our products, technical data or services, or to transfer technology from foreign sources (including our own subsidiaries) and to work collaboratively with them. Denials of such licenses and authorizations could have a material adverse effect on our business and results of operations.

U.S. regulations concerning export controls require us to screen potential customers, destinations, and technology to ensure that sensitive equipment, technology and services are not exported in violation of U.S. policy or diverted to improper uses or users.

In order for us to export certain products, technical data or services, we are required to obtain licenses from the U.S. government, often on a transaction-by-transaction basis. These licenses are generally required for the export of the military versions of our products and technical data and for defense services. We cannot be sure of our ability to obtain the U.S. government licenses or other approvals required to export our products, technical data and services for sales to foreign governments, foreign commercial customers or foreign destinations.

In addition, in order for us to obtain certain technical know-how from foreign vendors and to collaborate on improvements on such technology with foreign vendors, including at times our own foreign subsidiaries, we may need to obtain U.S. government approval for such collaboration through manufacturing license or technical assistance agreements approved by U.S. government export control agencies.

The U.S. government has the right, without notice, to revoke or suspend export licenses and authorizations for reasons of foreign policy, issues over which we have no control.

Failure to receive required licenses or authorizations would hinder our ability to export our products, data and services and to use some advanced technology from foreign sources. This could have a material adverse effect on our business, results of operations and financial condition.

Our failure to comply with export control rules could have a material adverse effect on our business.

Our failure to comply with these rules could expose us to significant criminal or civil enforcement action by the U.S. government, and a conviction could result in denial of export privileges, as well as contractual suspension or debarment under U.S. government contracts, either of which could have a material adverse effect on our business, results of operations and financial condition.

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Our operating margins may decline under our fixed-price contracts if we fail to estimate accurately the time and resources necessary to satisfy our obligations.

Some of our contracts are fixed-price contracts under which we bear the risk of any cost overruns. Our profits are adversely affected if our costs under these contracts exceed the assumptions that we used in bidding for the contract. Often, we are required to fix the price for a contract before we finalize the project specifications, which increases the risk that we will misprice these contracts. The complexity of many of our engagements makes accurately estimating our time and resources more difficult. In the event we fail to estimate our time and resources accurately, our expenses will increase and our profitability, if any, under such contracts will decrease.

If we are unable to retain our contracts with the U.S. government and subcontracts under U.S. government prime contracts in the competitive rebidding process, our revenues may suffer.

Upon expiration of a U.S. government contract or subcontract under a U.S. government prime contract, if the government customer requires further services of the type provided in the contract, there is frequently a competitive rebidding process. We cannot guarantee that we, or if we are a subcontractor that the prime contractor, will win any particular bid, or that we will be able to replace business lost upon expiration or completion of a contract. Further, all U.S. government contracts are subject to protest by competitors. The termination or nonrenewal of several of our significant contracts could result in considerable revenue shortfalls.

The loss of, or a significant reduction in, U.S. military business would have a material adverse effect on us.

U.S. military contracts account for a significant portion of our business. The U.S. military funds these contracts in annual increments. These contracts require subsequent authorization and appropriation that may not occur or that may be greater than or less than the total amount of the contract. Changes in the U.S. military's budget, spending allocations and the timing of such spending could adversely affect our ability to receive future contracts. None of our contracts with the U.S. military has a minimum purchase commitment, and the U.S. military generally has the right to cancel its contracts unilaterally without prior notice. We manufacture for the U.S. batteries for communications devices. The loss of, or a significant reduction in, U.S. military business for our batteries could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Market-Related Risks

The price of our common stock is volatile.

The market price of our common stock has been volatile in the past and may change rapidly in the future. The following factors, among others, may cause significant volatility in our stock price:

… announcements by us, our competitors or our customers;

… the introduction of new or enhanced products and services by us or our competitors;

… changes in the perceived ability to commercialize our technology compared to that of our competitors;

… rumors relating to our competitors or us;

… actual or anticipated fluctuations in our operating results;

… the issuance of our securities, including warrants, in connection with financings and acquisitions; and

… general market or economic conditions.

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If our shares were to be delisted, our stock price might decline further and we might be unable to raise additional capital.

One of the continued listing standards for our stock on the Nasdaq Stock Market (both the Nasdaq Global Market, on which our stock is currently listed, and the Nasdaq Capital Market) is the maintenance of a $1.00 bid price. Our stock price has periodically traded below $1.00 in the recent past. If our bid price were to decrease and remain below $1.00 for 30 consecutive business days, Nasdaq could notify us of our failure to meet the continued listing standards, after which we would have 180 calendar days to correct such failure or be delisted from the Nasdaq Global Market. Although we would have the opportunity to appeal any potential delisting, there can be no assurances that this appeal would be resolved favorably. As a result, there can be no assurance that our common stock will remain listed on the Nasdaq Global Market. If our common stock were to be delisted from the Nasdaq Global Market, we might apply to be listed on the Nasdaq Capital Market if we then met the initial listing standards of the Nasdaq Capital Market (other than the $1.00 minimum bid standard). If we were to move to the Nasdaq Capital Market, current Nasdaq regulations would give us the opportunity to obtain an additional 180-day grace period if we meet certain net income, stockholders' equity or market capitalization criteria; if at the end of that period we had not yet achieved compliance with the minimum bid price rule, we would be subject to delisting from the Nasdaq Capital Market. Although we would have the opportunity to appeal any potential delisting, there can be no assurances that this appeal would be resolved favorably. In addition, we may be unable to satisfy the other continued listing requirements. As a result, there can be no assurance that our common stock will remain listed on the Nasdaq Stock Market.

While our stock would continue to trade on the over-the-counter bulletin board following any delisting from the Nasdaq, any such delisting of our common stock could have an adverse effect on the market price of, and the efficiency of the trading market for, our common stock. Trading volume of over-the-counter bulletin board stocks has been historically lower and more volatile than stocks traded on an exchange or the Nasdaq Stock Market. As a result, holders of our securities could find it more difficult to sell their securities. Also, if in the future we were to determine that we need to seek additional equity capital, it could have an adverse effect on our ability to raise capital in the public equity markets.

In addition, if we fail to maintain Nasdaq listing for our securities, and no other exclusion from the definition of a "penny stock" under the Securities Exchange Act of 1934, as amended, is available, then any broker engaging in a transaction in our securities would be required to provide any customer with a risk disclosure document, disclosure of market quotations, if any, disclosure of the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market values of our securities held in the customer's account. The bid and offer quotation and compensation information must be provided prior to effecting the transaction and must be contained on the customer's confirmation. If brokers become subject to the "penny stock" rules when engaging in transactions in our securities, they would become less willing to engage in transactions, thereby making it more difficult for our stockholders to dispose of their shares.

We do not anticipate paying cash dividends.

We currently intend to retain any future earnings for funding growth and, as a result, do not expect to pay any cash dividends in the foreseeable future. Additionally, our ability to declare dividends should we decide to do so is restricted by the terms of our debt agreements.

Our certificate of incorporation and bylaws and Delaware law contain provisions that could discourage a takeover.

Provisions of our amended and restated certificate of incorporation may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock. These provisions:

- divide our board of directors into three classes serving staggered three-year terms;

- only permit removal of directors by stockholders "for cause," and require the affirmative vote of at least 85% of the outstanding common stock to so remove; and

- allow us to issue preferred stock without any vote or further action by the stockholders.

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The classification system of electing directors and the removal provision may tend to discourage a third-party from making a tender offer or otherwise attempting to obtain control of us and may maintain the incumbency of our board of directors, as the classification of the board of directors increases the difficulty of replacing a majority of the directors. These provisions may have the effect of deferring hostile takeovers, delaying changes in our control or management, or may make it more difficult for stockholders to take certain corporate actions. The amendment of any of these provisions would require approval by holders of at least 85% of the outstanding common stock.

Israel-Related Risks

A significant portion of our operations takes place in Israel, and we could be adversely affected by the economic, political and military conditions in that region.

The offices and facilities of Epsilor-EFL are located in Israel (in Beit Shemesh and Dimona, both of which are within Israel's pre-1967 borders). Most of our senior management is located in Beit Shemesh. Although we expect that most of our sales will continue to be made to customers outside Israel, we are nonetheless directly affected by economic, political and military conditions in that country. Accordingly, any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel.

Historically, Arab states have boycotted any direct trade with Israel and to varying degrees have imposed a secondary boycott on any company carrying on trade with or doing business in Israel. Although in October 1994, the states comprising the Gulf Cooperation Council (Saudi Arabia, the United Arab Emirates, Kuwait, Dubai, Bahrain and Oman) announced that they would no longer adhere to the secondary boycott against Israel, and Israel has entered into certain agreements with Egypt, Jordan, the Palestine Liberation Organization and the Palestinian Authority, Israel has not entered into any peace arrangement with Syria or Lebanon. Moreover, since September 2000, there has been a significant deterioration in Israel's relationship with the Palestinian Authority. Efforts to resolve the problem have failed to result in an agreeable solution.

In July and August of 2006, Israel was involved in a full-scale armed conflict with Hezbollah, a Lebanese Islamist Shiite militia group and political party, in southern Lebanon, which involved missile strikes against civilian targets in northern Israel that resulted in economic losses. On August 14, 2006, a ceasefire was declared relating to that armed conflict, although it is uncertain whether or not the ceasefire will continue to hold.

Israel withdrew unilaterally from the Gaza Strip and certain areas in northern Samaria in 2005. Thereafter Hamas, an Islamist terrorist group responsible for many attacks, including missile strikes against Israeli civilian targets, won the majority of the seats in the Parliament of the Palestinian Authority in January 2006 and took control of the entire Gaza Strip, by force, in June 2007. Since then, Hamas and other Palestinian movements have launched thousands of missiles from the Gaza strip into civilian targets in southern Israel. In late 2008, a sharp increase in rocket fire from Gaza on Israel's western Negev region, extending as far as 25 miles into Israeli territory and disrupting most day-to-day civilian activity in the proximity of the border with the Gaza Strip, prompted the Israeli government to launch military operations against Hamas that lasted approximately three weeks. Israel declared a unilateral ceasefire in January 2009, which substantially diminished the frequency of, but did not eliminate, Hamas rocket attacks against Israeli cities. In November 2012, following an increase in rocket attacks and hostile activity originating from the Gaza Strip, the Israeli government launched an air attack on Hamas. Rockets were fired into Israel extending as far as Tel Aviv and Jerusalem. After seven days, a ceasefire was agreed to by Israel and Hamas. Since then, rocket attacks have been significantly reduced, but not totally stopped. There can be no assurance that this period of relative calm will continue, especially in light of continuing rhetoric between Iran and Israel.

Our Israeli production facilities in the cities of Beit Shemesh and Dimona, are located approximately 27 miles and 38 miles, respectively, from the nearest point of the border with the Gaza Strip. There can be no assurance that Hamas will not begin to use on a more frequent basis longer-range missiles capable of reaching our facilities, which could result in a significant disruption of the Israel-based portion of our business. Additionally, recent political events, including political uprisings, social unrest and regime change, in various countries in the Middle East and North Africa have weakened the stability of those countries, which could result in extremists coming to power, including in countries with which Israel has signed peace treaties that may not be respected by extremists. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. This situation may potentially escalate in the future to violent events which may affect Israel and us. Any major hostilities involving Israel, including as a result of the military conflicts between the Fatah and Hamas in Gaza

Strip, Judea and Samaria, or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our business, operating results and financial condition.

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In addition to the foregoing, since the end of 2010, numerous acts of protest and civil unrest have taken place in several countries in the Middle East and North Africa, many of which involved significant violence. The civil unrest in Egypt, which borders Israel, resulted in significant changes to the country's government. In Syria, also bordering Israel, large and violent protests against the government are taking place. The ultimate effect of these developments on the political and security situation in the Middle East and on Israel's position within the region is not clear at this time.

Service of process and enforcement of civil liabilities on us and our officers may be difficult to obtain.

We are organized under the laws of the State of Delaware and will be subject to service of process in the United States. However, approximately 26.9% of our assets are located outside the United States. In addition, two of our directors and some of our executive officers are residents of Israel and a portion of the assets of such directors and executive officers are located outside the United States.

There is doubt as to the enforceability of civil liabilities under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, in original actions instituted in Israel. As a result, it may not be possible for investors to enforce or effect service of process upon these directors and executive officers or to judgments of U.S. courts predicated upon the civil liability provisions of U.S. laws against our assets, as well as the assets of these directors and executive officers. In addition, awards of punitive damages in actions brought in the U.S. or elsewhere may be unenforceable in Israel.

Exchange rate fluctuations between the U.S. dollar and the Israeli NIS may negatively affect our earnings.

Although a substantial majority of our revenues and a substantial portion of our expenses are denominated in U.S. dollars, a portion of our costs, including personnel and facilities-related expenses, is incurred in New Israeli Shekels (NIS). Inflation in Israel will have the effect of increasing the dollar cost of our operations in Israel, unless it is offset on a timely basis by a devaluation of the NIS relative to the dollar. In 2012, the inflation-adjusted NIS appreciated against the dollar.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our primary executive offices are located in FAAC's offices, consisting of approximately 17,300 square feet of office and warehouse space in Ann Arbor, Michigan, pursuant to a lease expiring in July 2018. FAAC has also leased 17,200 square feet of office and warehouse space adjacent to our main offices pursuant to a lease beginning in June 2006 and expiring in July 2017. Additionally, pursuant to a lease expiring in October 2014, FAAC is leasing approximately 10,000 square feet of office and lab space in Orlando, Florida. FAAC also leases approximately 6,900 square feet in Royal Oak, Michigan pursuant to a lease terminating in April 2014.

In August 2011, FAAC purchased 40,000 square feet of office and warehouse space in Ann Arbor, Michigan, approximately three miles from its current location, where it began to consolidate certain of its operations beginning in 2011. Subsequently, in December 2012, FAAC leased 7,000 square feet of surplus space of the purchased building to a non-profit organization as office space for a term of 10 years with an option to terminate the lease at any time after May 2018 with a one year prior notice given at any time after May 2017.

EFB operates out of our leased Auburn, Alabama facilities, constituting approximately 30,000 square feet, which is leased from the City of Auburn through January, 2014.

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Our management and administrative facilities and research, development and production facilities for the manufacture and assembly of our Survivor Locator Lights, constituting approximately 21,000 square feet, are located in Beit Shemesh, Israel, located between Jerusalem and Tel-Aviv (within Israel's pre-1967 borders). The lease for these facilities in Israel expires on December 31, 2017; we have the ability to terminate the lease upon three months' written notice at the end of November 2013. Most of the members of our senior management, including our Chief Executive Officer and our President, work extensively out of our Beit Shemesh facility. Our Chief Financial Officer works out of our Ann Arbor, Michigan facility.

Our Epsilor-EFL subsidiary rents approximately 23,000 square feet of factory, office and warehouse space in Dimona, Israel, in Israel's Negev desert (within Israel's pre-1967 borders), on a month-to-month basis.

In March 2007, we purchased 16,700 square feet of space for the now discontinued Armor Division in Auburn, Alabama for approximately $1.1 million pursuant to a seller-financed secured purchase money mortgage. Half of the mortgage is payable over ten years in equal monthly installments based on a 20-year amortization of the full principal amount, and the remaining half is payable at the end of ten years in a balloon payment. The building is currently leased to a third party and has been listed for sale with a local real estate agent. Additionally, the carrying value of this property was written down to zero as part of the 2011 Armor Division impairment.

We believe that our existing and currently planned facilities are adequate to meet our current and foreseeable future needs.

ITEM 3. LEGAL PROCEEDINGS

As of the date of this filing, there were no material pending legal proceedings against us, and there were no material legal proceedings active against us during 2012.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Global Market. Our Nasdaq ticker symbol is "ARTX." The following table sets forth, for the periods indicated, the range of high and low sales prices of our common stock on the Nasdaq Global Market System:

Year Ended December 31, 2012	High	Low
Fourth Quarter	$ 1.18	$ 0.90
Third Quarter	$ 1.00	$ 0.71
Second Quarter	$ 1.30	$ 0.85
First Quarter	$ 1.39	$ 1.11
Year Ended December 31, 2011	**High**	**Low**
Fourth Quarter	$ 1.64	$ 1.11
Third Quarter	$ 2.24	$ 1.31
Second Quarter	$ 2.47	$ 1.18
First Quarter	$ 1.74	$ 1.29

As of February 28, 2013 we had approximately 169 holders of record of our common stock.

Share Repurchase Program

In February of 2009, we authorized the repurchase in the open market or in privately negotiated transactions of up to $1.0 million of our common stock. Pursuant to this plan, through December 31, 2012 we have repurchased 638,611 shares of our common stock for $869,931 ($857,018 net of commissions), all of which was purchased after April 1, 2009. We did not repurchase any shares during 2012.

The repurchase program is subject to management's discretion.

Dividends

We have never paid any cash dividends on our common stock. The Board of Directors presently intends to retain all earnings for use in our business. Any future determination as to payment of dividends will depend upon our financial condition and results of operations and such other factors as the Board of Directors deems relevant. Additionally, our ability to declare dividends should we decide to do so is restricted by the terms of our debt agreements.

Annual Stockholders Meeting

We held our 2012 Annual Meeting of Stockholders on August 13, 2012. Our 2013 Annual Meeting of Stockholders will be held on Monday, June 24, 2013 commencing at 9:00 a.m., eastern daylight time, by webcast.

In light of the foregoing and in accordance with Rules 14a-5(f) and 14a-8(e)(2) under the Securities Exchange Act of 1934, as amended, we will consider stockholder proposals submitted in connection with our 2013 Annual Meeting to have been submitted in a timely fashion if such proposals are received by us at our principal offices no later than April 15, 2013. If a proposal is received after April 15, 2013, the proxies designated by the Board of Directors of the Company will have discretionary authority to vote on the proposal under circumstances consistent with the proxy rules of the Securities and Exchange Commission.

We expect to mail our Notice of Annual Meeting and Notice of Internet Availability of Proxy Materials, containing links to our Annual Report to Stockholders for the year ended December 31, 2012 and our Proxy Statement for the 2013 Annual Meeting, on or about May 14, 2013.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve inherent risks and uncertainties. When used in this discussion, the words "believes," "anticipated," "expects," "estimates" and similar expressions are intended to identify such forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those set forth elsewhere in this report. Please see "Risk Factors," above, and in our other filings with the Securities and Exchange Commission.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements contained in Item 8 of this report, and the notes thereto. We have rounded amounts reported here to the nearest thousand, unless such amounts are more than $1.0 million, in which event we have rounded such amounts to the nearest hundred thousand.

General

We are a defense and security products and services company, engaged in two business areas: interactive simulation for military, law enforcement and commercial markets; and batteries and charging systems for the military. We operate in two business units:

× ¨ ¨ We develop, manufacture and market advanced high-tech multimedia and interactive digital solutions for use-of-force training and driving training of military, law enforcement, security and other personnel (our ***Training and Simulation Division***); and

× ¨ ¨ We manufacture and sell lithium and Zinc-Air batteries for defense and security products, including our Soldier Wearable Integrated Power Equipment System (SWIPES)™ power hubs, and other military applications (our ***Battery and Power Systems Division***).

Between 2002 and December 2011, we were also engaged in utilizing advanced engineering concepts to manufacture military and paramilitary armored vehicles, and employing sophisticated lightweight materials to produce aviation armor, through our Armor Division. In December 2011, our Board of Directors approved management's plan to sell our Armor Division in order to focus on the more profitable and growth-oriented aspects of our business. We completed the sale of our Armor Division in June 2012.

The discontinuation of the Armor Division for accounting purposes resulted in a one-time, pre-tax charge during the fourth quarter of 2011 of approximately $3.9 million, reflecting an impairment of goodwill and intangibles ($1.8 million), an impairment of other long-lived assets ($1.5 million), a write-off of a joint venture investment ($269,000), and costs associated with change of control provisions and other non-statutory severance expenses ($302,000). Almost all these charges are non-cash impacting items. In 2012, an additional pre-tax adjustment of approximately $829,000 was recorded to reflect a loss upon the sale.

Critical Accounting Policies

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowance for bad debts, stock compensation, taxes, inventory, contingencies and deferred warranty revenue, impairment of intangible assets and goodwill. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Under different assumptions or conditions, actual results may differ from these estimates.

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We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Significant management judgments and estimates must be made and used in connection with the recognition of revenue in any accounting period. Material differences in the amount of revenue in any given period may result if these judgments or estimates prove to be incorrect or if management's estimates change on the basis of development of the business or market conditions. Management judgments and estimates have been applied consistently and have been reliable historically.

A portion of our revenue is derived from license agreements that entail the customization of FAAC's simulators to the customer's specific requirements. Revenues from initial license fees for such arrangements are recognized in accordance with FASB ASC 605-35 based on the percentage of completion method over the period from signing of the license through to customer acceptance, as such simulators require significant modification or customization that takes time to complete. The percentage of completion is measured by monitoring progress using records of actual time incurred to date in the project compared with the total estimated project requirement, which corresponds to the costs related to earned revenues. Estimates of total project requirements are based on prior experience of customization, delivery and acceptance of the same or similar technology and are reviewed and updated regularly by management.

We believe that the use of the percentage of completion method is appropriate as we have the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. In addition, contracts executed include provisions that clearly specify the enforceable rights regarding services to be provided and received by the parties to the contracts, the consideration to be exchanged and the manner and terms of settlement. In all cases we expect to perform our contractual obligations and our licensees are expected to satisfy their obligations under the contract. The complexity of the estimation process and the issues related to the assumptions, risks and uncertainties inherent with the application of the percentage of completion method of accounting affect the amounts of revenue and related expenses reported in our consolidated financial statements. A number of internal and external factors can affect our estimates, including labor rates, utilization and specification and testing requirement changes.

We account for our other revenues from IES simulators in accordance with the provisions of FASB ASC 985-605. We exercise judgment and use estimates in connection with the determination of the amount of software license and services revenues to be recognized in each accounting period.

Stock Based Compensation

We account for stock options and awards issued to employees in accordance with the fair value recognition provisions of FASB ASC 505-50. Under FASB ASC 505-50, stock-based awards to employees are required to be recognized as compensation expense, based on the calculated fair value on the date of grant. We determine the fair value of options using the Black Scholes option pricing model. This model requires subjective assumptions, including future stock price volatility and expected term, which affect the calculated values.

Allowance for Doubtful Accounts

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding receivables. In determining the provision, we analyze our historical collection experience and current economic trends. We reassess these allowances each accounting period. Historically, our actual losses and credits have been consistent with these provisions. If actual payment experience with our customers is different than our estimates, adjustments to these allowances may be necessary resulting in additional charges to our statement of operations.

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Accounting for Income Taxes

Significant judgment is required in determining our worldwide income tax expense provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of cost reimbursement arrangements among related entities, the process of identifying items of revenue and expense that qualify for preferential tax treatment and segregation of foreign and domestic income and expense to avoid double taxation. Although we believe that our estimates are reasonable, the final tax outcome of these matters may be different than that which is reflected in our historical income tax provisions and accruals.

We have provided a valuation allowance on our net deferred tax assets, which includes federal and foreign net operating loss carryforwards, because of the uncertainty regarding their realization. Our accounting for deferred taxes under FASB ASC 740-10, involves the evaluation of a number of factors concerning the realizability of our deferred tax assets. In concluding that a valuation allowance was required, we primarily considered such factors as our history of operating losses and expected future losses in certain jurisdictions and the nature of our deferred tax assets. We provide valuation allowances in respect of deferred tax assets resulting principally from the carryforward of tax losses. Management currently believes that it is more likely than not that our deferred tax assets in the U.S. and Israel will not be realized in the foreseeable future. We do not provide for U.S. federal income taxes on the undistributed earnings of our foreign subsidiaries because such earnings are re-invested and, in the opinion of management, will continue to be re-invested indefinitely.

We have indefinitely-lived intangible assets consisting of trademarks and goodwill. Pursuant to FASB ASC 350-10, these indefinitely-lived intangible assets are not amortized for financial reporting purposes. However, these assets are tax deductible, and therefore amortized over 15 years for tax purposes. As such, deferred income tax expense and a deferred tax liability arise as a result of the tax-deductibility of these indefinitely-lived intangible assets. The resulting deferred tax liability, which is expected to continue to increase over time, will have an indefinite life, resulting in what is referred to as a “naked tax credit.” This deferred tax liability could remain on our balance sheet indefinitely for continuing operations unless there is an impairment of the related assets (for financial reporting purposes), or the business to which those assets relate were to be disposed of.

Due to the fact that the aforementioned deferred tax liability could have an indefinite life, it should not be netted against our deferred tax assets (which primarily relate to net operating loss carryforwards) when determining the required valuation allowance. Doing so would result in the understatement of the valuation allowance and related deferred income tax expense.

We have adopted the provisions of the FASB ASC 740-10. FASB ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. We must determine whether it is “more-likely-than-not” that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If our determinations and estimates prove to be inaccurate, the resulting adjustments could be material to our future financial statements.

In addition, we operate within multiple taxing jurisdictions and may be subject to audits in these jurisdictions. These audits can involve complex issues that may require an extended period of time for resolution. In management’s opinion, adequate provisions for income taxes have been made.

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Inventories

Our policy for valuation of inventory and commitments to purchase inventory, including the determination of obsolete or excess inventory, requires us to perform a detailed assessment of inventory at each balance sheet date, which includes a review of, among other factors, an estimate of future demand for products within specific time horizons, valuation of existing inventory, as well as product lifecycle and product development plans. The estimates of future demand that we use in the valuation of inventory are the basis for our revenue forecast, which is also used for our short-term manufacturing plans. Inventory reserves are also provided to cover risks arising from slow-moving items. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based on assumptions about future demand and market conditions. We may be required to record additional inventory write-down if actual market conditions are less favorable than those projected by our management. For fiscal 2012, no significant changes were made to the underlying assumptions related to estimates of inventory valuation or the methodology applied.

Goodwill

As of December 31, 2012, we had recorded goodwill of $30.6 million (subsequent to the 2011 goodwill impairment in the amount of $1.8 million in connection with our decision to reflect the operations of the Armor Division as discontinued, referred to below). We allocate goodwill acquired in a business combination to the appropriate reporting unit as of the acquisition date. Currently our reporting units are also our reportable segments and the associated goodwill was determined when the specific businesses in the reportable segments were purchased. Under FASB ASC 350-10, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests, and tests between annual tests in certain circumstances, based on estimated fair value in accordance with FASB ASC 350-10, and written down when impaired.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment." ASU 2011-08 amends the guidance in Accounting Standards Codification ASC 350-10. Under the revised guidance, when testing goodwill for impairment we have the option of performing a qualitative assessment before calculating the fair value of a reporting unit. If we determine, on the basis of qualitative factors, that it is more likely than not that the fair value of the reporting unit is greater than the carrying amount, the two-step impairment test would not be required. If we cannot determine on the basis of qualitative factors that goodwill is not impaired, goodwill is then tested for impairment by using a discounted cash flow analysis. This type of analysis requires us to make assumptions and estimates regarding industry economic factors and the profitability of future business strategies. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for the reportable units. It is our policy to conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as future expectations. In assessing the recoverability of our goodwill, we may be required to make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. This process is subjective and requires judgment at many points throughout the analysis. If our estimates or their related assumptions change in subsequent periods or if actual cash flows are below our estimates, we may be required to record impairment charges for these assets not previously recorded.

We completed our annual goodwill impairment review using the financial results as of the quarter ended June 30, 2012 along with our forecasted plan developed in the fourth quarter. We use a June 30 date because this allows us to use internal resources that are available before we start our annual audit process (we wait until our June 30 financials were reviewed by our external auditors before we start the actual goodwill impairment analysis). In both 2012 and 2011, we determined, using qualitative factors, that the Training and Simulation goodwill was not impaired. In both 2012 and 2011, we completed the first step of the quantitative analysis of the goodwill in the Battery and Power Systems reporting unit, in which we computed a fair value of that reporting unit. Because the fair value was greater than the carrying value of the unit at the measurement date, the second step of the quantitative impairment assessment was not required and no goodwill was impaired. Although the valuation for Battery and Power Systems Division exceeded the reporting unit's carrying value by 14%, we will continue to monitor the actual results of the reporting unit versus the forecast used for the impairment review and re-evaluate the goodwill as required.

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Subsequent to our 2011 annual goodwill impairment review, in December 2011, in connection with our decision to sell our Armor Division and to reflect the operations of the Armor Division as discontinued, we identified an impairment of goodwill and other intangible assets identified with the Armor Division and, as a result, we recorded a goodwill impairment charge in the amount of $1.8 million during the fourth quarter of 2011.

Although the cumulative carrying value of our reporting units included in continuing operations exceeded our market value as of the impairment review, management nevertheless determined that the fair value of the respective reporting units exceeded their respective carrying values, and therefore, there would be no impairment charges relating to goodwill. Several factors contributed to this determination:

- The long term horizon of the valuation process versus a short term valuation using current market conditions;
- The valuation by individual business segments versus the market share value based on our company as a whole;
- The fact that our stock is thinly traded and widely dispersed with minimal institutional ownership, and thus not followed by major market analysts, leading management to conclude that the market in our securities was not acting as an informationally efficient reflection of all known information regarding us; and
- Control premiums reflected in the reporting unit fair values but not in our stock price.

In view of the above factors, management felt that in the current market our stock was undervalued, especially when compared to the estimated future cash flows of the underlying entities.

Other Intangible Assets

Other intangible assets are amortized to the Statement of Operations over the period during which benefits are expected to accrue, currently estimated at one to ten years.

The determination of the value of such intangible assets requires us to make assumptions regarding future business conditions and operating results in order to estimate future cash flows and other factors to determine the fair value of the respective assets. If these estimates or the related assumptions change in the future, we could be required to record additional impairment charges.

Contingencies

We are from time to time involved in legal proceedings and other claims. We are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. We have not made any material changes in the accounting methodology used to establish our self-insured liabilities during the past three fiscal years.

A determination of the amount of reserves required, if any, for any contingencies are made after careful analysis of each individual issue. The required reserves may change due to future developments in each matter or changes in approach, such as a change in the settlement strategy in dealing with any contingencies, which may result in higher net loss.

If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material.

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Warranty Reserves

Upon shipment of products to our customers, we defer revenue for the estimated cost to repair or replace products along with the appropriate margin for goods that may be returned under warranty. Our warranty period is typically twelve months from the date of shipment to the end user customer. For existing products, the deferred revenue is estimated based on actual historical experience. For new products, the warranty deferred revenue is based on historical experience of similar products until such time as sufficient historical data has been collected on the new product. Factors that may impact our warranty costs in the future include our reliance on our contract manufacturer to provide quality products and the fact that our products are complex and may contain undetected defects, errors or failures in either the hardware or the software.

Functional Currency

We consider the United States dollar to be the currency of the primary economic environment in which we and EFL operate and, therefore, both we and EFL have adopted and are using the United States dollar as our functional currency. Transactions and balances originally denominated in U.S. dollars are presented at the original amounts. Gains and losses arising from non-dollar transactions and balances are included in net income.

The majority of financial transactions of Epsilor is in New Israeli Shekels ("NIS") and a substantial portion of Epsilor's costs is incurred in NIS. Management believes that the NIS is the functional currency of Epsilor. Accordingly, the financial statements of Epsilor have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the period. The resulting translation adjustments are reported as a component of accumulated other comprehensive loss in stockholders' equity.

Executive Summary

Overview of Results of Operations

We incurred operating losses for the years ended December 31, 2012 and 2011. While we expect to continue to derive revenues from the sale of products that we manufacture and the services that we provide, there can be no assurance that we will be able to achieve or maintain profitability on a consistent basis.

A portion of our operating loss during 2012 and 2011 arose as a result of non-cash and impairment charges. These charges were primarily related to our prior acquisitions, financings and stock-based awards to employees. To the extent that we continue certain of these activities during 2013, we would expect to continue to incur such non-cash charges in the future.

Acquisitions

In acquisition of subsidiaries, part of the purchase price is allocated to intangible assets and goodwill. Amortization of intangible assets related to acquisition of subsidiaries is recorded based on the estimated expected life of the assets. Accordingly, for a period of time following an acquisition, we incur a non-cash charge related to amortization of intangible assets in the amount of a fraction (based on the useful life of the intangible assets) of the amount recorded as intangible assets. Such amortization charges continued during 2012. We are required to review intangible assets for impairment whenever events or changes in circumstances indicate that carrying amount of the assets may not be recoverable. If we determine, through the impairment review process, that an intangible asset has been impaired, we must record the impairment charge in our statement of operations.

In the case of goodwill, the assets recorded as goodwill are not amortized; instead, we are required to perform an annual impairment review. If we determine, through the impairment review process, that goodwill has been impaired, we must record the impairment charge in our statement of operations.

We incurred non-cash charges for amortization of intangible assets in 2012 and 2011 in the amount of $1.2 million and $1.9 million, respectively. In addition, we incurred non-cash charges in discontinued operations for impairment of goodwill and other intangible assets in the amount of $1.8 million during 2011 in respect of our Armor Division. See "Critical Accounting Policies – Goodwill," above.

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FINANCINGS AND ISSUANCES OF RESTRICTED SHARES, RESTRICTED STOCK UNITS, OPTIONS AND WARRANTS

The non-cash charges that relate to our financings occurred in connection with our issuance of convertible debt securities with detachable warrants. When we issued convertible securities, we recorded a discount (representing the value of the detachable warrants and the derivative features of the debt) that was amortized ratably over the life of the debenture. When a debenture is converted, however, the entire remaining unamortized discount was immediately recognized as expense in the quarter in which the debenture was converted. During 2012 and 2011, we recorded credits of approximately zero and $161,000, respectively, attributable to debt discount amortization.

During 2012 and 2011, we issued restricted shares and restricted stock units to certain of our employees and to our directors. Each restricted stock unit is equal to one share of Company stock and is redeemable only for stock. These shares were issued as stock bonuses or were the required annual grant to directors, and are restricted for a period of up to three years from the date of issuance. Relevant accounting rules provide that the aggregate amount of the difference between the purchase price of the restricted shares or restricted stock units (in this case, generally zero) and the market price of the shares on the date of grant is taken as a general and administrative expense, amortized over the life of the period of the restriction.

We incurred non-cash charges related to stock-based compensation in 2012 and 2011 in the amount of $448,000 and $408,000, respectively.

During the third quarter of 2008 and pursuant to the terms of a Securities Purchase Agreement dated August 14, 2008, we issued and sold to a group of institutional investors 10% senior convertible notes in the aggregate principal amount of $5.0 million due August 15, 2011. These notes were convertible at any time prior to August 15, 2011 at a conversion price of $2.24 per share.

As part of the securities purchase agreement, we issued to the purchasers of our 10% senior convertible notes due August 15, 2011, warrants to purchase an aggregate of 558,036 shares of common stock at any time prior to August 15, 2011 at a price of $2.24 per share. Due to certain exercise price reset provisions, the warrants were accounted for as liabilities at fair value with changes in fair value reflected as financial income or expense amounting to $161,000 of income in 2011 through the date such warrants expired unexercised.

Overview of Operating Performance and Backlog

Overall, our pre-tax loss from continuing operations for 2012 was $1.4 million on revenues of $80.1 million, compared to a pre-tax loss of $3.4 million on revenues of $62.1 million during 2011. As of December 31, 2012, our overall backlog for continuing operations totaled $87.7 million.

In our Training and Simulation Division, revenues increased from approximately $42.9 million in 2011 to $59.3 million in 2012. As of December 31, 2012, our backlog for our Training and Simulation Division totaled $72.4 million.

In our Battery and Power Systems Division, revenues increased from approximately $19.3 million in 2011 to approximately $20.8 million in 2012. As of December 31, 2012, our backlog for our Battery and Power Systems Division totaled $15.3 million.

Common Stock Repurchase Program

In February 2009, we authorized the repurchase in the open market or in privately negotiated transactions of up to $1.0 million of our common stock. Pursuant to this plan, through December 31, 2012 we have repurchased 638,611 shares of our common stock for $869,931 ($857,018 net of commissions), all of which was purchased after April 1, 2009. At December 31, 2012, we had remaining authorization for the repurchase of up to $142,982 in shares of our common stock. The repurchase program, which expires on August 13, 2013, is subject to the discretion of our management.

Results of Operations

Results exclude the operations of the Armor Division, which we reflect as discontinued.

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Summary

Following is a table summarizing our results of continuing operations for the years ended December 31, 2012 and 2011, after which we present a narrative discussion and analysis:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Revenues:		
Training and Simulation Division	$ 59,270,768	$ 42,881,573
Battery and Power Systems Division	20,779,666	19,254,005
	$ 80,050,434	$ 62,135,578
Cost of revenues:		
Training and Simulation Division	$ 44,822,270	$ 29,715,897
Battery and Power Systems Division	17,318,768	16,235,033
	$ 62,141,038	$ 45,950,930
Research and development expenses:		
Training and Simulation Division	$ 698,349	$ 819,879
Battery and Power Systems Division	1,345,369	581,989
	$ 2,043,718	$ 1,401,868
Selling and marketing expenses:		
Training and Simulation Division	$ 4,513,244	$ 4,399,952
Battery and Power Systems Division	974,666	854,939
	$ 5,487,910	$ 5,254,891
General and administrative expenses:		
Training and Simulation Division	$ 3,456,873	$ 3,844,279
Battery and Power Systems Division	946,727	1,211,114
Corporate	5,649,165	5,622,462
	$ 10,052,765	$ 10,677,855
Amortization of intangible assets:		
Training and Simulation Division	$ 676,299	$ 1,395,857
Battery and Power Systems Division	509,240	509,240
	$ 1,185,539	$ 1,905,097
Operating income (loss):		
Training and Simulation Division	$ 5,103,733	$ 2,705,709
Battery and Power Systems Division	(315,104)	(138,310)
Corporate	(5,649,165)	(5,622,462)
	$ (860,536)	$ (3,055,063)
Other income:		
Training and Simulation Division	$ (5,926)	$ 37,567
Battery and Power Systems Division	(2,327)	–
Corporate	(31)	6,285
	$ (8,284)	$ 43,852
Allowance for settlements:		
Corporate	$ –	$ 12,333
	$ –	$ 12,333
Financial expense (income):		
Training and Simulation Division	$ 43,221	$ 47,112
Battery and Power Systems Division	7,639	209,764
Corporate	497,126	74,130
	$ 547,986	$ 331,006
Income tax expense (benefit):		
Training and Simulation Division	$ (7,688)	$ (69,734)
Battery and Power Systems Division	–	646,824

Corporate	635,844	1,031,521
	$ 628,156	$ 1,608,611
Net loss – continuing operations:		
Training and Simulation Division	$ 5,074,126	$ 2,765,898
Battery and Power Systems Division	(320,416)	(994,898)
Corporate	(6,782,104)	(6,734,161)
	$ (2,028,394)	$ (4,963,161)

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Fiscal Year 2012 compared to Fiscal Year 2011

Revenues. During 2012, we (through our subsidiaries) recognized revenues as follows:

× ¨ ¨ **Training and Simulation Division** - FAAC, IES and RTI recognized revenues from the sale of military operations and vehicle simulators, interactive use-of-force training systems and from the provision of maintenance services in connection with such systems.

× ¨ ¨ **Battery and Power Systems Division** - EFB and Epsilor-EFL recognized revenues from the sale of batteries, chargers, adapters and power hub products to the military and commercial customers, and under certain development contracts with the U.S. Army.

× ¨ ¨ **Battery and Power Systems Division** - Epsilor-EFL also recognized revenues from the sale of water-activated battery (WAB) lifejacket lights.

Revenues for continuing operations for 2012 totaled $80.1 million, compared to $62.1 million in 2011, an increase of $18.0 million, or 28.8%. This increase was primarily attributable to the following factors:

× ¨ ¨ Increased revenues from our Training and Simulation Division ($16.4 million more in 2012 versus 2011), due primarily to revenue in 2012 related to a major new contract (VCTS).

× ¨ ¨ Increased revenues from our Battery and Power Systems Division ($1.5 million more in 2012 versus 2011), due to an increase of $3.2 million in U.S. sales of SWIPES™, partially offset by a $1.3 million decrease in Israeli sales.

The table below details the percentage of total recognized revenue by type of arrangement for the years ended December 31, 2012 and 2011:

	Year Ended December 31,	
Type of Revenue	**2012**	**2011**
Sale of products	96.0%	93.8%
Maintenance and support agreements	2.8%	4.3%
Long term research and development contracts	1.2%	1.9%
Total	100.0%	100.0%

Cost of revenues. Cost of revenues totaled $62.1 million during 2012, compared to $46.0 million in 2011, an increase of $16.1 million, or 35.2%, due primarily to increased revenues in our Training and Simulation Division and the higher costs associated with the new VCTS contract, as well as increased sales in the U.S. of the SWIPES™ system. Cost of revenues as a percentage of revenue remained essentially flat in our Battery and Power Systems Division but increased in our Training and Simulation Division due primarily to the product mix and the VCTS contract.

Research and development expenses. Research and development expenses for 2012 were $2.0 million, compared to $1.4 million during 2011, an increase of $642,000, or 45.8%, due primarily to increased spending in the Battery and Power Systems Division for continuing research on the SWIPES™ system, offset by a small reduction of expenses in the Training and Simulation Division.

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Selling and marketing expenses. Selling and marketing expenses for 2012 were $5.5 million, compared to $5.3 million in 2011, an increase of $233,000, or 4.4%, due primarily to an increase in the sales force and increases in the demonstration of new products to the military in the Battery and Power Systems Division.

General and administrative expenses. General and administrative expenses for 2012 were $10.1 million, compared to $10.7 million in 2011, a decrease of $625,000, or 5.9%. This decrease was primarily attributable to reductions in corporate and division compensation of $568,000 and a $128,000 reduction in legal expense compared to 2011.

Amortization of intangible assets. Amortization of intangible assets totaled $1.2 million in 2012, compared to $1.9 million in 2011, a decrease of $720,000, or 37.8%, due primarily to decreased charges for fully amortized capitalized software in our Training and Simulation Division.

Financial expenses, net. Financial expense totaled $548,000 in 2012, compared to financial expense of 331,000 in 2011, an increase of $217,000, or 65.6%, due primarily to an increase in corporate interest and bank charges of $239,000 along with a $161,000 decrease in credits recorded in 2011 for warrants. The expense increase was offset by a foreign currency adjustment of $(345,000).

Income taxes. With respect to some of our subsidiaries that generated net income during 2012, we were able to offset federal taxes against our accumulated loss carry forward. We recorded $628,000 in tax expense in 2012, compared to $1.6 million in tax expense in 2011, a decrease of $980,000, or 61.0%, mainly concerning state and local taxes and taxes in Israel along with “naked” credits (“naked” credits occur when deferred tax liabilities that are created by indefinite-lived assets such as goodwill cannot be used as a source of taxable income to support the realization of deferred tax assets). This amount includes the required adjustment of taxes due to the deduction of goodwill “naked” credits for U.S. federal taxes, which totaled $599,000 and $1.0 million respectively, in non-cash expenses in 2012 and 2011.

Net loss. Due to the factors cited above, net loss from continuing operations was reduced to $2.0 million in 2012 from $5.0 million in 2011, a difference of $3.0 million.

Discontinued Operations. As cited above, we have discontinued our Armor Division (see Note 1.d. of the Notes to the Consolidated Financial Statements), which generated a net loss of $988,000 2012. During 2012, we had incurred additional expenses related to the sale of the Armor Division. Almost all of these charges are non-cash impacting items.

Liquidity and Capital Resources

As of December 31, 2012, we had $1.6 million in cash and $186,000 in restricted collateral deposits, as compared to December 31, 2011, when we had $2.3 million in cash and $1.7 million in restricted collateral deposits. We also had $380,000 in available, unused bank lines of credit with our main bank as of December 31, 2012, under a $10.0 million credit facility under our FAAC subsidiary, which is secured by our assets and the assets of our other subsidiaries and guaranteed by us.

Effective April 30, 2012, we and FAAC entered into an agreement with a different primary bank that has provided us with a replacement $10.0 million credit facility under our FAAC subsidiary, which is secured by Arotech assets and the assets of our other domestic subsidiaries and guaranteed by Arotech and our other domestic subsidiaries, at a rate of LIBOR plus 375 basis points. This credit facility was scheduled to expire May 2013. The new 2012 credit agreement contains certain covenants, including minimum Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”), quarterly Maximum Increase in Net Advance to Affiliates of less than 90% of EBITDA and an annual Fixed Charge Coverage Ratio of not less than 1.1 to 1.0. At the end of 2012 and as of the filing date of this report, we met all required current covenants. In February 2013, to support our growth, our primary bank increased our credit line by 50%, from $10 million to $15 million, and the expiration of the credit line was extended to May 31, 2015. The new credit agreement carries an interest rate of 30 day LIBOR plus 375 basis points and an unused line of credit fee of 0.35%. The new credit agreement also contains certain covenants, which are measured on a rolling twelve-month basis, limiting the Maximum Increase in Net Advance to Affiliates to less than 90% of EBITDA in 2013 and meeting a Fixed Charge Coverage Ratio of not less than 1.1 to 1.0.

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We used available funds in 2012 primarily for sales and marketing, continued research and development expenditures, and other working capital needs. We purchased approximately $950,000 of property and equipment during 2012. Our net property and equipment amounted to $4.5 million as of December 31, 2012.

Net cash used in operating activities for 2012 and 2011 was $4.4 million and $5.8 million, respectively, a net change in usage of $1.4 million. This difference was due primarily to the increased working capital funding requirements for our major projects at both the Simulation and Training Division (VCTS) and Battery and Power Systems Division (SWIPES™). The timing of cash inflows and outflows has impacted us due to the substantial purchases of products to fulfill these contracts. Additionally, the increases in working capital were offset by a decrease in the net loss from continuing operations of $2.9 million. Net cash used in operating activities has been impacted by a significant increase in unbilled receivables.

Net cash provided by (used in) investing activities for 2012 and 2011 was $371,000 and $(2.7) million, a net change of $3.1 million. This difference was due primarily to the release of $1.6 million in restricted funds due to the completion of a significant contract by the Training and Simulation Division along with a reduction of $1.7 million in property and equipment purchases. This was offset by a redemption of available for sale securities of $399,000 recorded in 2011.

Net cash provided by financing activities for 2012 and 2011 was $3.5 million and $4.6 million, respectively, a change of $1.1 million. This difference was due primarily to changes in short term borrowing under our primary line of credit to support the timing differences associated with our major projects at the Training and Simulation Division and the Battery and Power Systems Division.

As of December 31, 2012, we had approximately $9.8 million in short-term bank debt and $1.9 million in long-term debt outstanding for continuing operations, including current maturities, as compared to December 31, 2011, when we had approximately $6.6 million in short-term bank debt and $1.0 million in long-term debt outstanding for continuing operations, including current maturities.

Subject to all of the reservations regarding “forward-looking statements” set forth above, we believe that our present cash position, anticipated cash flows from operations and availability under our lines of credit should be sufficient to satisfy our current estimated cash requirements through the remainder of 2013. In this connection, we note that from time to time our working capital needs are partially dependent on our subsidiaries’ lines of credit.

Over the long term, we will need to be profitable, at least on a cash-flow basis, and maintain that profitability in order to avoid future capital infusions. Additionally, we would need to raise additional capital or sell assets in order to fund any future acquisitions.

Effective Corporate Tax Rate

We and certain of our subsidiaries incurred net operating losses during the years ended December 31, 2012 and 2011. With respect to some of our U.S. subsidiaries that operated at a net profit during 2012, we were able to offset federal taxes against our net operating loss carryforward. These subsidiaries are, however, subject to state taxes that cannot be offset against our net operating loss carryforward. We also set up a tax liability for the impact of the deductions taken for goodwill.

As of December 31, 2012, we had a U.S. net operating loss carryforward of approximately $43.3 million that is available to offset future taxable income under certain circumstances, expiring primarily from 2020 through 2032, and foreign net operating and capital loss carryforwards of approximately $85.4 million, which are available indefinitely to offset future taxable income under certain circumstances.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of December 31, 2012, our management, including the principal executive officer and principal financial officer, evaluated our disclosure controls and procedures related to the recording, processing, summarization, and reporting of information in our periodic reports that we file with the SEC. These disclosure controls and procedures are intended to ensure that material information relating to us, including our subsidiaries, is made known to our management, including these officers, by other of our employees, and that this information is recorded, processed, summarized, evaluated, and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Any system of controls and procedures, no matter how well designed and operated, can at best provide only reasonable assurance that the objectives of the system are met and management necessarily is required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Our controls and procedures are intended to provide only reasonable, not absolute, assurance that the above objectives have been met.

Based on their evaluation as of December 31, 2012, our principal executive officer and principal financial officer were able to conclude that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective.

We will continue to review and evaluate the design and effectiveness of our disclosure controls and procedures on an ongoing basis and to improve our controls and procedures over time and correct any deficiencies that we may discover in the future. Our goal is to ensure that our senior management has timely access to all material financial and non-financial information concerning our business. While we believe the present design of our disclosure controls and procedures is effective to achieve our goal, future events affecting our business may cause us to modify our disclosure controls and procedures.

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Management's Report on Internal Control Over Financial Reporting

Our management, including our principal executive and financial officers, is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our management has evaluated the effectiveness of our internal controls as of the end of the period covered by this Annual Report on Form 10-K for the year ended December 31, 2012. In making our assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in *Internal Control – Integrated Framework.*

Based on management's assessment and these criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter to which this Annual Report on Form 10-K relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Executive Officers, Directors and Significant Employees

Executive Officers and Directors

Our executive officers and directors and their ages as of February 28, 2013 were as follows:

Name	Age	Position
Robert S. Ehrlich	75	Chairman of the Board and Chief Executive Officer
Steven Esses	49	President and Director
Dr. Jay M. Eastman	64	Director
Edward J. Borey	62	Director
Seymour Jones	81	Director
Elliot Sloyer	48	Director
Michael E. Marrus	49	Director
Arthur S. Leibowitz	59	Director
Thomas J. Paup	64	Vice President – Finance and Chief Financial Officer

Our by-laws provide for a board of directors of one or more directors. There are currently seven directors. Under the terms of our certificate of incorporation, the board of directors is composed of three classes of similar size, each elected in a different year, so that only one-third of the board of directors is elected in any single year. Dr. Eastman and Messrs. Esses and Marrus are designated Class I directors and have been elected for a term expiring in 2015 and until their successors are elected and qualified; Prof. Jones and Messrs. Ehrlich and Leibowitz are designated Class II directors elected for a term expiring in 2014 and until their successors are elected and qualified; and Messrs. Borey and Sloyer are designated Class III directors elected for a term that expires in 2013 and until their successors are elected and qualified. A majority of the Board is “independent” under relevant SEC and Nasdaq regulations.

Robert S. Ehrlich has been our Chairman of the Board since January 1993 and our Chief Executive Officer since October 2002. From May 1991 until January 1993, Mr. Ehrlich was our Vice Chairman of the Board, from May 1991 until October 2002 he was our Chief Financial Officer, and from October 2002 until December 2005, Mr. Ehrlich also held the title of President. Mr. Ehrlich was a director of Eldat, Ltd., an Israeli manufacturer of electronic shelf labels, from June 1999 to August 2003. From 1987 to June 2003, Mr. Ehrlich served as a director of PSC Inc. (“PSCX”), a manufacturer and marketer of laser diode bar code scanners, and, between April 1997 and June 2003, Mr. Ehrlich was the chairman of the board of PSCX. Mr. Ehrlich received a B.S. and J.D. from Columbia University in New York, New York.

Mr. Ehrlich has experience as an accountant, an attorney and as an investment banker. He has been involved with public companies since the late 1960s, both as an investment banker and as the chief financial officer and a director of Mattel, where he was instrumental in helping to uncover fraudulent practices in the preparation of certain of that company’s financial statements, and he continued to serve as a director of Mattel through the late 1980s. After leaving Mattel, Mr. Ehrlich founded his own boutique investment banking company and became a director of certain of the companies involved in his investment banking business. Mr. Ehrlich ultimately became the Chairman and CEO of Fresenius USA, Inc. and of PSCX, prior to becoming our Chief Financial Officer in 1991 and our Chief Executive Officer in 2002. We believe that Mr. Ehrlich’s background and experience make him appropriate to serve as one of our directors in light of our business and structure.

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Steven Esses has been a director since July 2002, our Executive Vice President since January 2003, our Chief Operating Officer from February 2003 until February 2012 and our President since December 2005. From 2000 until 2002, Mr. Esses was a principal with Stillwater Capital Partners, Inc., a New York-based investment research and advisory company (hedge fund) specializing in alternative investment strategies. During this time, Mr. Esses also acted as an independent consultant to new and existing businesses in the areas of finance and business development. In 1995, Mr. Esses founded the Dunkin' Donuts franchise in Israel and was its Managing Director and CEO until 2005. Before founding Dunkin' Donuts Israel, Mr. Esses was the Director of Retail Jewelry Franchises with Hamilton Jewelry, and before that he served as Executive Director of Operations for the Conway Organization, a major off-price retailer with 17 locations.

Mr. Esses has been actively involved in the day-to-day management of companies since he was 22, when he co-founded a company that eventually went public. He has worked in retail and wholesale, in high-tech and low-tech, in a variety of industries. Throughout his career, he has been highly numbers-oriented, focusing on budgetary and fiscal matters and on building business value. We believe that Mr. Esses's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

Dr. Jay M. Eastman has been one of our directors since October 1993. From 1991 to 2011, Dr. Eastman served as President and Chief Executive Officer of Lucid, Inc., a public company that is developing laser technology applications for medical diagnosis and treatment; since December 2011, Dr. Eastman has served as a director and Chief Science Officer of Lucid. Dr. Eastman served as Senior Vice President of Strategic Planning of PSCX from December 1995 through October 1997. Dr. Eastman is also a director of Dimension Technologies, Inc., a developer and manufacturer of 3D displays for computer and video displays. From 1981 until 1983, Dr. Eastman was the Director of the University of Rochester's Laboratory for Laser Energetics, where he was a member of the staff from 1975 to 1981. Dr. Eastman holds a B.S. and a Ph.D. in Optics from the University of Rochester in New York.

Dr. Eastman brings to our Board the unique perspective of a trained scientist who has also been deeply involved in the business world. Since many of our company's products are of a "high-tech" nature, Dr. Eastman's scientific background is extremely valuable to the Board. Additionally, Dr. Eastman brings to the Board his experiences as Chairman and Chief Executive Officer of a high-tech company, as well as his experience as a director of other public companies. We believe that Dr. Eastman's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

Edward J. Borey has been one of our directors since December 2003. From July 2004 until October 2006, Mr. Borey served as Chairman and Chief Executive Officer of WatchGuard Technologies, Inc., a leading provider of network security solutions (NasdaqGM: WGRD). From December 2000 to September 2003, Mr. Borey served as President, Chief Executive Officer and a director of PSCX. Prior to joining PSCX, Mr. Borey was President and CEO of TranSenda (May 2000 to December 2000). Previously, Mr. Borey held senior positions in the automated data collection industry. At Intermec Technologies Corporation (1995-1999), he was Executive Vice President and Chief Operating Officer and also Senior Vice President/General Manager of the Intermec Media subsidiary. Mr. Borey holds a B.S. in Economics from the State University of New York, College of Oswego, an M.A. in Public Administration from the University of Oklahoma, and an M.B.A. in Finance from Santa Clara University.

Mr. Borey has served as the chief executive officer of two public companies and as chief operating officer of one public and one private company, some of which were very active in mergers and acquisitions. He has a wealth of experience in the issues facing public companies and businesses in general, including in turnaround situations, and he has strong experience in marketing in North America, Europe and Asia. His background also includes experience with support and maintenance of military ground vehicles and auxiliary ground vehicles, fixed and rotary aircraft, and simulation for the United States and foreign militaries. We believe that Mr. Borey's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

Seymour Jones has been one of our directors since August 2005. Mr. Jones has been a clinical professor of accounting at New York University Stern School of Business since September 1993. Professor Jones teaches courses in accounting, tax, forensic accounting and legal aspects of entrepreneurism. He is also the Associate Director of Ross Institute of Accounting Research at Stern School of Business. His primary research areas include audit committees, auditing, entrepreneurship, financial reporting, and fraud. Professor Jones is the principal author of numerous books including *Conflict of Interest*, *The Coopers & Lybrand Guide to Growing Your Business*, *The Emerging Business* and *The Bankers Guide to Audit Reports and Financial Statements*. From April 1974 to September 1995, Mr. Jones was a senior partner of the accounting firm of Coopers & Lybrand, a legacy firm of PricewaterhouseCoopers LLP ("PwC"). Professor Jones is a certified public accountant in New York State. Professor Jones received a B.A. in economics from City College, City University of New York, and an M.B.A. from NYU Stern.

Mr. Jones brings many years of experience as an audit partner at PwC with extensive financial accounting knowledge that is critical to our board of directors. Mr. Jones's experience with accounting principles, financial reporting rules and regulations, evaluating financial results and generally overseeing the financial reporting process of large public companies from an independent auditor's perspective and as a professor of accounting makes him an invaluable asset to our board of directors. We believe that Mr. Jones's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

Elliot Sloyer has served as a director since October 2007. Mr. Sloyer is a Managing Member of WestLane Capital Management, LLC, which he founded in 2005. From 1992 until 2005, Mr. Sloyer was a founder and Managing Director of Harbor Capital Management, LLC, which managed convertible arbitrage portfolios. Mr. Sloyer is active in community organizations and currently serves on the investment committee of a charitable organization. Mr. Sloyer also serves as a director of Trans-Lux Corporation, a designer and manufacturer of digital signage display solutions (OTC: TNLX). Mr. Sloyer has a B.A. from New York University.

Mr. Sloyer's investment advisor experience brings valuable insight to the Board in enabling us to anticipate the reactions and concerns of the investment community. We believe that Mr. Sloyer's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

Michael E. Marrus has been one of our directors since October 2007. Since October 2011, Mr. Marrus has been a Managing Director of Dominick & Dominick LLC, one of the oldest, privately-held investment firms in the United States. From 2009 to 2011, Mr. Marrus was a Managing Director of Merriman Curhan Ford, Inc., a financial services firm focused on growth companies. From 1998 to 2009, he was a Managing Director of C.E. Unterberg, Towbin & Co., an investment banking firm that was acquired by Collins Stewart plc. Prior to joining Unterberg, Towbin, Mr. Marrus was a Principal and founding member of Fieldstone Private Capital Group, an investment banking firm specializing in corporate, project and structured finance. Previously, he was employed at Bankers Trust Company, initially in the Private Equity and Merchant Banking Groups and subsequently in BT Securities, the securities affiliate of Bankers Trust. Mr. Marrus has an A.B. from Brown University and an M.B.A. from the Graduate School of Business, University of Chicago.

Mr. Marrus has been involved in mergers and acquisitions as an investment banker and has experience in company valuation in a wide range of industries, a critical skill set for us. We believe that Mr. Marrus's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

Arthur S. Leibowitz has been one of our directors since June 2009. Mr. Leibowitz is a lecturer at Adelphi University School of Business where he teaches courses in accounting to both graduate and undergraduate students. Before joining Adelphi University, Mr. Leibowitz was an audit and business assurance partner at PwC. During his twenty-seven years at PwC, Mr. Leibowitz served in a national leadership role for PwC's retail industry group and was the portfolio audit partner for one of PwC's leading private equity firms. Mr. Leibowitz is a certified public accountant in New York State and received a B.S. in accounting from Brooklyn College in New York.

Mr. Leibowitz brings many years of experience as an audit and business assurance partner at PwC with extensive financial accounting knowledge that is critical to our board of directors. His skills are a vital asset to our board of directors at a time when accurate and transparent accounting, a sound financial footing and exemplary governance practices are essential. We believe that Mr. Leibowitz's background and experience make him appropriate to serve as one of our directors in light of our business and structure.

Thomas J. Paup has been our Vice President – Finance since December 2005 and our Chief Financial Officer since February 2006. Mr. Paup is currently also a Finance Lecturer at Eastern Michigan University. Mr. Paup was an Affiliated Partner with McMillan|Doolittle LLP from March 2002 until accepting this position with us, and prior thereto, he was an Executive in Residence and Finance Instructor at DePaul University's Kellstadt Graduate School of Business. Prior to his teaching experience, Mr. Paup spent over 25 years in the retail industry. Most recently, between 1997 and 2000, Mr. Paup was the Executive Vice President and Chief Financial Officer and member of the Board of Directors of Montgomery Ward and Company. Mr. Paup brings a broad background of strategic and operational management experiences from the department store industry, where he served as CFO of Lord & Taylor and Kaufmann's and Controller of Bloomingdale's and Robinson-May. Mr. Paup holds an MBA in Finance and a BBS from Eastern Michigan University.

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Board Leadership Structure

We have chosen to combine the positions of Chairman of the Board and Chief Executive Officer. We believe that Mr. Ehrlich's long experience in business, both as a director and as chairman of the board of other public companies, as well as his unique understanding of our business, make it desirable that he serve as Chairman of our Board of Directors, and that the size of our company and the nature of our business do not require that the positions of Chairman and of Chief Executive Officer be bifurcated.

Our independent directors have not chosen to formally designate one of their number as lead independent director.

Committees of the Board of Directors

Our board of directors has an Audit Committee, a Compensation Committee, a Nominating Committee and an Executive and Finance Committee.

Created in December 1993, the purpose of the Audit Committee is to review with management and our independent auditors the scope and results of the annual audit, the nature of any other services provided by the independent auditors, changes in the accounting principles applied to the presentation of our financial statements, and any comments by the independent auditors on our policies and procedures with respect to internal accounting, auditing and financial controls. The Audit Committee was established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. In addition, the Audit Committee is charged with the responsibility for making decisions on the engagement of independent auditors. As required by law, the Audit Committee operates pursuant to a charter, available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html. The Audit Committee consists of Prof. Jones (Chair) and Messrs. Borey, Sloyer and Leibowitz. We have determined that each of Prof. Jones and Mr. Leibowitz qualifies as an "audit committee financial expert" under applicable SEC and Nasdaq regulations. Prof. Jones and Mr. Leibowitz, as well as all the other members of the Audit Committee, are "independent," as independence is defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards and under Item 7(d)(3)(iv) of Schedule 14A of the proxy rules under the Exchange Act.

The Compensation Committee, also created in December 1993, recommends annual compensation arrangements for the Chief Executive Officer and Chief Financial Officer and reviews annual compensation arrangements for all officers and significant employees. The Compensation Committee operates pursuant to a charter, available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html. The Compensation Committee consists of Dr. Eastman (Chair) and Messrs. Marrus and Sloyer, all of whom are independent non-employee directors.

The Executive and Finance Committee, created in July 2001, exercises the powers of the Board during the intervals between meetings of the Board, in the management of the property, business and affairs of the Company (except with respect to certain extraordinary transactions). The Executive and Finance Committee consists of Messrs. Ehrlich (Chair), Esses, Marrus and Sloyer.

The Nominating Committee, created in March 2003, identifies and proposes candidates to serve as members of the Board of Directors. Proposed nominees for membership on the Board of Directors submitted in writing by stockholders to the Secretary of the Company will be brought to the attention of the Nominating Committee. The Nominating Committee consists of Mr. Marrus (Chair), Dr. Eastman and Prof. Jones, all of whom are "independent," as independence is defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards and under Item 7(d)(3)(iv) of Schedule 14A of the proxy rules under the Exchange Act. The Nominating Committee operates under a formal charter that governs its duties. The Nominating Committee's charter is publicly available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html.

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Code of Ethics

We have adopted a Code of Ethics, as required by Nasdaq listing standards and the rules of the SEC, that applies to our principal executive officer, our principal financial officer and our principal accounting officer. The Code of Ethics is publicly available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html. If we make substantive amendments to the Code of Ethics or grant any waiver, including any implicit waiver, that applies to anyone subject to the Code of Ethics, we will disclose the nature of such amendment or waiver on the website or in a report on Form 8-K in accordance with applicable Nasdaq and SEC rules.

Code of Conduct

We have adopted a general Code of Conduct, as required by Nasdaq listing standards and the rules of the SEC, that applies to all of our employees. The Code of Conduct is publicly available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html.

Whistleblower Policy

We have adopted a Whistleblower Policy, as required by Nasdaq listing standards, in order to ensure compliance with the provisions of the Sarbanes-Oxley Act of 2002. The Whistleblower Policy is publicly available through a hyperlink located on the investor relations page of our website, at http://www.arotech.com/compro/investor.html. Employees with complaints about our compliance with applicable legal and regulatory requirements relating to accounting, auditing and internal control matters may submit their complaints in person, by mail or other written communication or by telephone to our Complaint Administrator. The Complaint Administrator can be contacted anonymously, by submitting the form located on our corporate website at http://arotech.com/compro/complaint.html. Complaints sent in this manner will automatically be stripped of all computer-encoded information identifying the originating e-mail address, and will then automatically be forwarded to the Complaint Administrator’s regular e-mail address at Arotech.

Director Compensation

Non-employee members of our Board of Directors are entitled to a cash retainer in 2012 of $3,500 (plus expenses) per quarter, plus $500 per quarter for each committee on which such outside directors serve. (In 2011, the Directors were paid a cash retainer of $7,000 per quarter but voluntarily accepted a reduced retainer in 2012 as an expense control measure.) The Chairman of the Audit Committee receives an additional retainer of $1,500 per quarter, and the Chairman of the Compensation Committee receives an additional retainer of $1,000 per quarter. No per-meeting fees are paid. In addition, we have adopted a Non-Employee Director Equity Compensation Plan, pursuant to which non-employee directors receive an initial grant of a number of restricted shares having a fair market value on the date of grant equal to $25,000 upon their election as a director, and an annual grant on March 31 of each year of a number of restricted shares having a fair market value on the date of grant equal to $15,000. Each grant of restricted stock shall become free of restrictions in three equal installments on each of the first, second and third anniversaries of the grant, unless the director resigns from the Board prior to such vesting. Restrictions lapse automatically in the event of a director being removed for service other than for cause, or being nominated as a director but failing to be elected, or death, disability or mandatory retirement. Furthermore, all restrictions lapse prior to the consummation of a merger or consolidation involving us, our liquidation or dissolution, any sale of substantially all of our assets or any other transaction or series of related transactions as a result of which a single person or several persons acting in concert own a majority of our then-outstanding common stock.

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The following table shows the compensation earned or received by each of our non-officer directors for the year ended December 31, 2012:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash	Stock Awards Granted 2012	Total	Stock Awards Vested[1] 2012
Dr. Jay M. Eastman	$ 23,500	$ 15,000	$ 38,500	$ 15,853[2]
Edward J. Borey	$ 21,500	$ 15,000	$ 36,500	$ 15,853[3]
Seymour Jones	$ 25,500	$ 15,000	$ 40,500	$ 15,853[4]
Elliot Sloyer	$ 23,500	$ 15,000	$ 38,500	$ 15,853[5]
Michael E. Marrus	$ 23,500	$ 15,000	$ 38,500	$ 15,853[6]
Arthur S. Leibowitz	$ 19,500	$ 15,000	$ 34,500	$ 12,759[7]

(1) This column reflects the 2012 compensation expense for stock based awards for the year ended December 31, 2012.
(2) As of December 31, 2012, Dr. Eastman held 22,146 unvested restricted shares of our common stock.
(3) As of December 31, 2012, Mr. Borey held 22,146 unvested restricted shares of our common stock.
(4) As of December 31, 2012, Prof. Jones held 22,146 unvested restricted shares of our common stock.
(5) As of December 31, 2012, Mr. Sloyer held 22,146 unvested restricted shares of our common stock.
(6) As of December 31, 2012, Mr. Marrus held 22,146 unvested restricted shares of our common stock.
(7) As of December 31, 2012, Mr. Leibowitz held 22,146 unvested restricted shares of our common stock.

Significant Employees

Our significant employees as of February 28, 2013, and their ages as of December 31, 2012, are as follows:

Name	Age	Position
Dean Krutty	47	President, Training and Simulation Division
Ronen Badichi	47	President, Battery and Power Systems Division
Yaakov Har-Oz	55	Senior Vice President, General Counsel and Secretary
Norman E. Johnson	60	Corporate Controller, Chief Accounting Officer

Dean Krutty became President of the Simulation Division in January 2005, after having spent the prior thirteen years as a member of the FAAC management team. He began his career at FAAC as an electrical engineer in FAAC’s part task trainer division and most recently served as FAAC’s Director of Military Operations. He also has significant experience managing programs in the training and simulation industry. Mr. Krutty holds a B.S. in electrical engineering from the Michigan State University.

Ronen Badichi became the General Manager of Epsilor Electronic Industries in May 2005 and the President of our Battery Division in December 2007. Prior to joining Epsilor, Mr. Badichi served since 1999 as the General Manager of Maoz Industries, a high end supplier of displays to the aviation industry. Prior thereto, Mr. Badichi was a project manager at BAE Systems and served as the F-16 Avionics Integration manager in the Israeli Air Force, with the rank of Captain. Mr. Badichi holds a B.Sc. in Physics and Electro-Optic Engineering from the Lev Institute of Technology in Jerusalem.

Yaakov Har-Oz has served as our Vice President and General Counsel since October 2000 and as our corporate Secretary since December 2000; in December 2005 Mr. Har-Oz was promoted to Senior Vice President. From 1994 until October 2000, Mr. Har-Oz was a partner in the Jerusalem law firm of Ben-Ze’ev, Hacohen & Co. Prior to moving to Israel in 1993, he was an administrative law judge and in private law practice in New York. Mr. Har-Oz holds a B.A. from Brandeis University in Waltham, Massachusetts and a J.D. from Vanderbilt Law School (where he was an editor of the law review) in Nashville, Tennessee. He is a member of the New York bar and the Israel Chamber of Advocates.

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Norman E. Johnson has served as our Controller and as our Chief Accounting Officer since August 2006. Prior to joining Arotech, Mr. Johnson was the Corporate Controller with Catuity Inc., a Nasdaq-listed provider of loyalty and gift card solutions. Prior to Catuity, he was with the McCoig Group, a Detroit based holding company, and from March 2000 to August 2004 he was the Corporate Controller of Learning Care Group Inc., a $250 million Nasdaq-listed provider of child care and educational services. Mr. Johnson holds a B.S. in Accounting from Central Michigan University in Mt. Pleasant, Michigan.

Section 16(a) Beneficial Ownership Reporting Compliance

Under the securities laws of the United States, our directors, certain of our officers and any persons holding more than ten percent of our common stock are required to report their ownership of our common stock and any changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and we are required to report any failure to file by these dates during 2012. We are not aware of any instances during 2012, not previously disclosed by us, where such “reporting persons” failed to file the required reports on or before the specified dates, except as follows:

(i) Mr. Paup was required to file a Form 4 on or prior to December 21, 2012 in connection with his exercise of 5,555 Restricted Stock Units. He reported these transactions in a Form 5 filed on February 14, 2013.

ITEM 11. EXECUTIVE COMPENSATION

Cash and Other Compensation

Summary Compensation Table

The following table, which should be read in conjunction with the explanations provided below, shows the compensation that we paid (or accrued) to our executive officers during the fiscal years ended December 31, 2012 and 2011:

SUMMARY COMPENSATION TABLE[(1)]

Name and Principal Position	Year	Salary	Bonus	Stock Awards Granted[(2)]	All Other Compensation	Total
Robert S. Ehrlich	2012	$ 431,910	$ 120,533	$ 230,000	$ 90,361[(3)]	$ 872,804
Chairman, Chief Executive Officer and a director	2011	$ 502,583	$ 180,000	$ 262,000	$ 150,148[(4)]	$ 1,094,731
Thomas J. Paup	2012	$ 175,000	$ 68,805	$ 72,000	$ (3,137)[(5)]	$ 312,668
Vice President – Finance and Chief Financial Officer	2011	$ 190,000	$ 47,641	$ 157,200	$ 4,675[(5)]	$ 399,516
Steven Esses	2012	$ 232,566[(6)]	$ 145,200	$ 172,500	$ 386,851[(7)]	$ 903,279
President and a director	2011	$ 239,856[(8)]	$ 143,661	$ 196,500	$ 352,182[(9)]	$ 883,242

(1) We paid the amounts reported for each named executive officer in U.S. dollars and/or New Israeli Shekels (NIS). We have translated amounts paid in NIS into U.S. dollars at the exchange rate of NIS into U.S. dollars at the time of payment or accrual, except that certain items are pursuant to corporate policy paid at a set exchange rate that may be higher than the actual exchange rate on the date of payment. The difference, which was a positive number in 2011 and 2012, has been reported under “Salary.” The exchange rate differences for Mr. Ehrlich were $62,843 and $102,583 for 2012 and 2011, respectively. The exchange rate differences for Mr. Esses were $33,838 and $48,957 for 2012 and 2011, respectively. Additionally, Mr. Ehrlich and Mr. Paup voluntarily reduced their salary in the 2nd quarter of 2012 as a cost control measure.

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(2) Reflects the value of awards of restricted stock or restricted stock units granted to our executive officers based on the compensation cost of their stock-based awards – see Note 13.c. of the Notes to Consolidated Financial Statements. The number of shares of restricted stock or restricted stock units received by our executive officers pursuant to such awards in 2012 (in connection with their amended and restated employment agreements), vesting entirely after two years (dependent 33% on tenure and 67% on performance), was as follows: Mr. Ehrlich, 100,000; Mr. Esses, 75,000; Mr. Paup, 60,000. None of these shares came up for vesting in 2012. The number of shares of restricted stock or restricted stock units received by our executive officers pursuant to such awards in 2011, vesting one-half after one year (dependent 25% on tenure and 75% on performance) and one-half after two years (dependent 33% on tenure and 67% on performance), was as follows: Mr. Ehrlich, 100,000; Mr. Esses, 150,000; Mr. Paup, 120,000. The first tranche of these shares came up for vesting in December 2011, and of the 75% dependent on performance, one-third – or 25% of the total – vested; shares not vesting were cancelled. The second tranche of these shares came up for vesting in December 2012, and of the 67% dependent on performance, 156,667 shares – or 67% of the total – vested.

(3) Of this amount, $(31,467) (the obligation declined due to exchange rate differences) represents the change in our accrual for severance pay that will be payable to Mr. Ehrlich upon his leaving our employ other than if he is terminated for cause, such as a breach of trust; $30,720 represents the change of our accrual for vacation pay; $30,131 represents tax reimbursements and $60,977 represents other normal or mandated Israeli benefits.

(4) Of this amount, $24,654 represents the change in our accrual for severance pay that will be payable to Mr. Ehrlich upon his leaving our employ other than if he is terminated for cause, such as a breach of trust; $29,241 represents the change of our accrual for vacation pay; $55,526 represents tax reimbursements and $40,727 represents other normal or mandated Israeli benefits.

(5) Represents the increase (decrease) in our accrual for Mr. Paup for accrued but unused vacation days.

(6) Does not include approximately $186,000 that we paid in consulting fees to Sampen Corporation, a New York corporation owned by members of Steven Esses's immediate family, from which Mr. Esses receives a salary. See "Item 13. Certain Relationships and Related Transactions – Consulting Agreement with Sampen Corporation," below.

(7) Of this amount, $33,102 represents payments to Israeli pension and education funds; $232,066 represents the change in our accrual for severance pay that will be payable to Mr. Esses upon his leaving our employ other than if he is terminated for cause, such as a breach of trust; $26,856 represents sick pay redemption; $2,227 represents the change of our accrual for vacation pay; $645 represents tax reimbursements; and $58,117 represents other normal or mandated Israeli benefits.

(8) Does not include $185,856 that we paid in consulting fees to Sampen Corporation, a New York corporation owned by members of Steven Esses's immediate family, from which Mr. Esses receives a salary. See "Item 13. Certain Relationships and Related Transactions – Consulting Agreement with Sampen Corporation," below.

(9) Of this amount, $34,281 represents payments to Israeli pension and education funds; $166,209 represents the change in our accrual for severance pay that will be payable to Mr. Esses upon his leaving our employ other than if he is terminated for cause, such as a breach of trust; $27,256 represents sick pay redemption; $15,896 represents the change of our accrual for vacation pay; $23,868 represents tax reimbursements; and $35,715 represents other normal or mandated Israeli benefits.

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Executive Loans

In 2000 and 2002, we extended certain loans to certain of our Named Executive Officers. These loans are summarized in the following table, and are further described under "Item 13. Certain Relationships and Related Transactions – Officer Loans," below.

Name of Borrower	Date of Loan		Original Principal Amount of Loan		Amount Outstanding as of 12/31/2012	Terms of Loan
Robert S. Ehrlich	02/09/2000	$	329,163	$	452,995	Twenty-five-year non-recourse loan to purchase our stock secured by the shares of stock purchased.
Robert S. Ehrlich	06/10/2002	$	36,500	$	–	Ten-year non-recourse loan to purchase our stock, secured by the shares of stock purchased.

Plan-Based Awards

Grants of Stock Options

We did not grant any stock options to our executive officers during 2012.

Grants of Restricted Stock or Restricted Stock Units

During 2012, the Compensation Committee approved the grant of a total of 235,000 shares of restricted stock or restricted stock units to our executive officers (in connection with their amended and restated employment agreements). The table below sets forth each equity award granted to our executive officers during the year ended December 31, 2012.

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	All Other Stock Awards: Number of Shares of Stocks		Grant Date Fair Value of Stock Awards (1)
Robert S. Ehrlich(2)	01/01/2012	100,000	$	120,000
Robert S. Ehrlich(3)	11/12/2012	100,000	$	110,000
Steven Esses(2)	01/01/2012	75,000	$	90,000
Steven Esses(3)	11/12/2012	75,000	$	82,500
Thomas J. Paup(2)	01/01/2012	60,000	$	79,800

(1) Reflects the aggregate market value of the shares of restricted stock or restricted stock units determined based on the closing price of our common stock on the Nasdaq Global Market on the date of grant.
(2) The restricted shares or restricted stock units vest entirely after two years, in December 2013 (dependent 33% on tenure and 67% on performance).
(3) The restricted shares vest equally over three years starting in June 2013.

Stock Option Exercises and Vesting of Restricted Stock Awards

Our executive officers did not exercise any stock options during 2012. The following table presents awards of restricted stock or restricted stock units that vested during the year ended December 31, 2012.

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STOCK VESTED

Name	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting[(1)] ($)
Robert S. Ehrlich	100,000	$ 103,000
Steven Esses	75,000	$ 77,250
Thomas J. Paup	60,000	$ 61,800

(1) Reflects the aggregate market value of the shares of restricted stock or restricted stock units determined based on a per share price of $1.03, the closing price of our common stock on the Nasdaq Global Market on December 31, 2012, which was the last trading day of 2012.

Outstanding Equity Awards at Fiscal Year-End

The table below sets forth information for our executive officers with respect to option, restricted stock and restricted stock unit values at the end of the fiscal year ended December 31, 2012.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Stock Awards			
			Equity Incentive Plan Awards	
Name	Number of Shares that Have Not Vested (#)	Market Value of Shares that Have Not Vested[(1)] ($)	Number of Unearned Shares that Have Not Vested (#)	Market Value of Unearned Shares that Have Not Vested[(1)] ($)
Robert S. Ehrlich	133,334	$ 137,334	66,666	$ 68,666
Steven Esses	100,000	$ 103,000	50,000	$ 51,500
Thomas J. Paup	20,000	$ 20,600	40,000	$ 41,200

(1) Reflects the aggregate market value of the shares of restricted stock or restricted stock units determined based on a per share price of $1.03, the closing price of our common stock on the Nasdaq Global Market on December 31, 2012, which was the last trading day of 2012.

Employment Contracts

Robert S. Ehrlich

Mr. Ehrlich is party to an amended and restated employment agreement with us executed in February 2012. The term of this employment agreement expires on December 31, 2013.

The employment agreement provides for a base salary of NIS 150,000 (approximately $39,400 per month based on the exchange rate on January 1, 2012), as adjusted annually for Israeli inflation. Additionally, the board may at its discretion raise Mr. Ehrlich's base salary. The employment agreement also granted Mr. Ehrlich a retention bonus in the amount of 100,000 shares of restricted stock, which vests on December 31, 2013, with such vesting being contingent on Mr. Ehrlich being employed by us on the scheduled vesting date and on performance criteria to be established by the Compensation Committee of our Board of Directors.

The employment agreement provides that we will pay an annual bonus, on a sliding scale, in an amount equal to 35% of Mr. Ehrlich's annual base salary then in effect if the results we actually attain for the year in question are 90% or more of the amount we budgeted at the beginning of the year, up to a maximum of 75% of his annual base salary then in effect if the results we actually attain for the year in question are 120% or more of the amount we budgeted at the beginning of the year. Mr. Ehrlich's previous employment agreement had an identical bonus provision. For 2011 and 2012, the Compensation Committee choose financial targets for determining eligibility for the above-referenced cash incentive bonus that are determined in part on the achievement of set budgetary forecast targets for adjusted EBITDA, a non-GAAP measurement, and in part on the achievement of other targets – in the case of 2011, targets for backlog, and in the case of 2012, targets for revenues. The Board's adjusted budget for 2012 for continuing operations called for adjusted EBITDA of $2.39 million with revenues of at least $79 million. Actual results were EBITDA of $2.64 million with revenues of $80.1 million. New bonus targets will be chosen for 2013 based upon future budgetary forecasts.

The employment agreement also contains various benefits customary in Israel for senior executives, tax and financial planning expenses and an automobile, and contain confidentiality and non-competition covenants. Pursuant to the employment agreements, we granted Mr. Ehrlich demand and "piggyback" registration rights covering shares of our common stock held by him.

We can terminate Mr. Ehrlich's employment agreement in the event of death or disability or for "Cause" (defined as conviction of certain crimes, willful failure to carry out directives of our board of directors or gross negligence or willful misconduct). Mr. Ehrlich has the right to terminate his employment upon a change in our control or for "Good Reason," which is defined to include adverse changes in employment status or compensation, our insolvency, material breaches and certain other events. Additionally, Mr. Ehrlich may terminate his agreement for any reason upon 120 days' notice.

Upon termination of employment, the employment agreement provides for payment of all accrued and unpaid compensation and benefits (including under most circumstances Israeli statutory severance, described under "Item 1. Business – Employees," above), and (unless we have terminated the agreement for Cause or Mr. Ehrlich has terminated the agreement without Good Reason and without giving us 120 days' notice of termination) bonuses (to the extent earned) due for the year in which employment is terminated and severance pay in the amount of up to $1,625,400. Furthermore, in respect of any termination by us other than termination for Cause or termination of the agreement due to Mr. Ehrlich's death or disability, or by Mr. Ehrlich other than for Good Reason, all outstanding options and all restricted shares will be fully vested. Restricted shares that have vested prior to the date of termination are not forfeited under any circumstances, including termination for Cause.

A table describing the payments that would have been due to Mr. Ehrlich under his employment agreement had Mr. Ehrlich's employment with us been terminated at the end of 2012 under various circumstances (pursuant to the terms of his then-current employment agreement) appears under "Potential Payments and Benefits upon Termination of Employment – Robert S. Ehrlich," below.

In April 2009, we, with the agreement of Mr. Ehrlich, funded a portion of his severance security by means of issuing to him, in trust, restricted stock having a value (based on the closing price of our stock on the Nasdaq Stock Market on the date on which Mr. Ehrlich and our board of directors agreed on this arrangement) of $240,000, a total of 328,767 shares. We agreed with Mr. Ehrlich that the economic risk of gain or loss on these shares is to be borne by Mr. Ehrlich. Should Mr. Ehrlich leave our employ under circumstances in which he is not entitled to his severance package (primarily, termination for Cause as defined in his employment agreement), these shares would be returned to us for cancellation.

Steven Esses

Mr. Esses is party to an amended and restated employment agreement with EFL and guaranteed by us executed in February 2012. The term of this employment agreement expires on December 31, 2013.

The employment agreement provides for a base salary in 2012 of NIS 71,587 per month (approximately $18,800 at the rate of exchange in effect on January 1, 2012), and a base salary in 2013 of NIS 129,187 per month (approximately $33,900 at the rate of exchange in effect on January 1, 2012), as adjusted for Israeli inflation during 2012. Additionally, the board may at its discretion raise Mr. Esses's base salary. The agreement also provides for a stock retention bonus of 75,000 shares of restricted stock, which vests on December 31, 2013, with such vesting being contingent on Mr. Esses being employed by us on the scheduled vesting date and on performance criteria to be established by the Compensation Committee of our Board of Directors.

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The employment agreement provides that if the results we actually attain in a given year are at least 90% of the amount we budgeted at the beginning of the year, we will pay a bonus, on a sliding scale, in an amount equal to a minimum of 20% of Mr. Esses's annual base salary then in effect, up to a maximum of 75% of his annual base salary then in effect if the results we actually attain for the year in question are 120% or more of the amount we budgeted at the beginning of the year. Mr. Esses's previous employment agreement had an identical bonus provision. For 2011 and 2012, the Compensation Committee choose financial targets for determining eligibility for the above-referenced cash incentive bonus that are determined in part on the achievement of set budgetary forecast targets for adjusted EBITDA, a non-GAAP measurement, and in part on the achievement of other targets – in the case of 2011, targets for backlog, and in the case of 2012, targets for revenues. The Board's adjusted budget for 2012 for continuing operations called for adjusted EBITDA of $2.39 million with revenues of at least $79 million. Actual results were EBITDA of $2.64 million with revenues of $80.1 million. New bonus targets will be chosen for 2013 based upon future budgetary forecasts.

The employment agreement also contains various benefits customary in Israel for senior executives, tax and financial planning expenses and an automobile, and contain confidentiality and non-competition covenants. Pursuant to the employment agreements, we granted Mr. Esses demand and "piggyback" registration rights covering shares of our common stock held by him.

We can terminate Mr. Esses's employment agreement in the event of death or disability or for "Cause" (defined as conviction of certain crimes, willful failure to carry out directives of our board of directors or gross negligence or willful misconduct). Mr. Esses has the right to terminate his employment upon a change in our control or for "Good Reason," which is defined to include adverse changes in employment status or compensation, our insolvency, material breaches and certain other events. Additionally, Mr. Esses may retire (after age 65), retire early (after age 55) or terminate his agreement for any reason upon 150 days' notice.

Upon termination of employment, the employment agreement provides for payment of all accrued and unpaid compensation (including under most circumstances Israeli statutory severance, described under "Item 1. Business – Employees," above), and (unless we have terminated the agreement for Cause or Mr. Esses has terminated the agreement without Good Reason and without giving us 150 days' notice of termination) bonuses (to the extent earned) due for the year in which employment is terminated (in an amount of not less than 20% of base salary) and severance pay, as follows: (A) before the end of the first year of the agreement, a total of (i) $307,200 plus (ii) twenty-four (24) times monthly salary; or (B) at or after the end of the first year of the agreement, twenty-four (24) times monthly salary. Furthermore, Mr. Esses will receive, in respect of all benefits, an additional sum in the amount of (i) $75,000, in the case of termination due to disability, Good Reason, death, or non-renewal, or (ii) $150,000, in the case of termination due to early retirement, retirement, change of control or change of location. Additionally, in respect of any termination due to a change of control or a change in the primary location from which Mr. Esses shall have conducted his business activities during the 60 days prior to such change, all outstanding options and all restricted shares will be fully vested. Restricted shares that have vested prior to the date of termination are not forfeited under any circumstances, including termination for Cause.

A table describing the payments that would have been due to Mr. Esses under his employment agreement had Mr. Esses's employment with us been terminated at the end of 2012 under various circumstances (pursuant to the terms of his then-current employment agreement) appears under "Potential Payments and Benefits upon Termination of Employment – Steven Esses," below.

In April 2009, we, with the agreement of Mr. Esses, funded a portion of his severance security by means of issuing to him, in trust, restricted stock having a value (based on the closing price of our stock on the Nasdaq Stock Market on the date on which Mr. Esses and our board of directors agreed on this arrangement) of $200,000, a total of 273,973 shares. We agreed with Mr. Esses that the economic risk of gain or loss on these shares is to be borne by Mr. Esses. Should Mr. Esses leave our employ under circumstances in which he is not entitled to his severance package (primarily, termination for Cause as defined in his employment agreement), these shares would be returned to us for cancellation.

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See also “Item 13. Certain Relationships and Related Transactions – Consulting Agreement with Sampen Corporation,” below.

Thomas J. Paup

Mr. Paup is party to an amended and restated employment agreement with us executed in February 2012, having a term running until December 31, 2014. Under the terms of his employment agreement, Mr. Paup is entitled to receive a base salary of $190,000 per annum, as adjusted annually for inflation. The agreement also provides for a stock retention bonus of 60,000 shares of restricted stock, which vests on December 31, 2013, with such vesting being contingent on Mr. Paup being employed by us on the scheduled vesting date and on performance criteria to be established by the Compensation Committee of our Board of Directors.

The employment agreement provides that if the results we actually attain in a given year are at least 90% of the amount we budgeted at the beginning of the year, we will pay a bonus, on a sliding scale, in an amount equal to a minimum of 20% of Mr. Paup’s annual base salary then in effect, up to a maximum of 50% of his annual base salary then in effect if the results we actually attain for the year in question are 120% or more of the amount we budgeted at the beginning of the year. Mr. Paup’s previous employment agreement had an identical bonus provision. For 2011 and 2012, the Compensation Committee choose financial targets for determining eligibility for the above-referenced cash incentive bonus that are determined in part on the achievement of set budgetary forecast targets for adjusted EBITDA, a non-GAAP measurement, and in part on the achievement of other targets – in the case of 2011, targets for backlog, and in the case of 2012, targets for revenues. The Board’s adjusted budget for 2012 for continuing operations called for adjusted EBITDA of $2.39 million with revenues of at least $79 million. Actual results were EBITDA of $2.64 million with revenues of $80.1 million. New bonus targets will be chosen for 2013 based upon future budgetary forecasts.

Mr. Paup’s employment agreement provides that if we terminate his agreement other than for cause (defined as conviction of certain crimes, willful failure to carry out directives of our board of directors or gross negligence or willful misconduct), we must pay Mr. Paup severance in an amount of twelve times his monthly salary (doubled in the event of termination by reason of a change of control), with an additional three months’ severance payable if Mr. Paup completes the three-year term of his agreement. Additionally, in respect of any termination due to a change of control, all outstanding options and all restricted shares will be fully vested. Restricted shares that have vested prior to the date of termination are not forfeited under any circumstances, including termination for Cause.

A table describing the payments that would have been due to Mr. Paup under his employment agreement had Mr. Paup’s employment with us been terminated at the end of 2012 under various circumstances (pursuant to the terms of his then-current employment agreement) appears under “Potential Payments and Benefits upon Termination of Employment – Thomas J. Paup,” below.

Others

Other employees have entered into individual employment agreements with us. These agreements govern the basic terms of the individual’s employment, such as salary, vacation, overtime pay, severance arrangements and pension plans. Subject to Israeli law, which restricts a company’s right to relocate an employee to a work site farther than sixty kilometers from his or her regular work site, we have retained the right to transfer certain employees to other locations and/or positions provided that such transfers do not result in a decrease in salary or benefits. All of these agreements also contain provisions governing the confidentiality of information and ownership of intellectual property learned or created during the course of the employee’s tenure with us. Under the terms of these provisions, employees must keep confidential all information regarding our operations (other than information which is already publicly available) received or learned by the employee during the course of employment. This provision remains in force for five years after the employee has left our service. Further, intellectual property created during the course of the employment relationship belongs to us.

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A number of the individual employment agreements, but not all, contain non-competition provisions which restrict the employee's rights to compete against us or work for an enterprise which competes against us. Such provisions generally remain in force for a period of two years after the employee has left our service.

Under the laws of Israel, an employee of ours who has been dismissed from service, died in service, retired from service upon attaining retirement age, or left due to poor health, maternity or certain other reasons, is entitled to severance pay at the rate of one month's salary for each year of service, *pro rata* for partial years of service. We currently fund this obligation by making monthly payments to approved private provident funds and by its accrual for severance pay in the consolidated financial statements. See Note 2.q. of the Notes to the Consolidated Financial Statements.

Potential Payments and Benefits upon Termination of Employment

This section sets forth in tabular form quantitative disclosure regarding estimated payments and other benefits that would have been received by certain of our executive officers if their employment had terminated on December 31, 2012 (the last business day of the fiscal year), pursuant to the terms of their then-current employment agreements.

For a narrative description of the severance and change in control arrangements in the current employment contracts of Messrs. Ehrlich, Esses and Paup, see "– Employment Contracts," above. Each of Messrs. Ehrlich and Esses will be eligible to receive severance payments in excess of accrued but unpaid items only if he signs a general release of claims.

Robert S. Ehrlich

The following table describes the potential payments and benefits upon employment termination for Robert S. Ehrlich, our Chairman and Chief Executive Officer, pursuant to applicable law and the terms of his then-current employment agreement with us, as if his employment had terminated on December 31, 2012 (the last business day of the fiscal year) under the various scenarios described in the column headings as explained in the footnotes below.

ROBERT S. EHRLICH

Payments and Benefits	**Death or Disability[(1)]**	**Cause[(2)]**	**Good Reason[(3)]**	**Change of Control[(4)]**	**Termination at Will[(5)]**	**Other Employee Termination [(6)]**
Accrued but unpaid:						
Base salary	$ 29,644	$ 29,644	$ 29,644	$ 29,644	$ 29,644	$ 29,644
Vacation	109,881	109,881	109,881	109,881	109,881	109,881
Recuperation pay[(7)]	395	395	395	395	395	395
Benefits:						
Continuing education fund[(8)]	2,223	2,223	2,223	2,223	2,223	2,223
Tax gross-up on automobile	2,621	–	2,621	2,621	2,621	–
Contractual severance	1,625,400	–	1,625,400	1,625,400	1,625,400	–
Statutory severance[(9)]	872,540	–	872,540	872,540	872,540	–
Accelerated vesting of restricted stock	230,000	–	230,000	230,000	–	–
TOTAL:	$ 2,872,704	$ 142,143	$ 2,872,704	$ 2,872,704	$ 2,642,704	$ 142,143

(1) "Disability" is defined in Mr. Ehrlich's employment agreement as a physical or mental infirmity which impairs Mr. Ehrlich's ability to substantially perform his duties and which continues for a period of at least 180 consecutive days.

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(2) "Cause" is defined in Mr. Ehrlich's employment agreement as (i) conviction for fraud, crimes of moral turpitude or other conduct which reflects on us in a material and adverse manner; (ii) a willful failure to carry out a material directive of our Board of Directors, *provided* that such directive concerned matters within the scope of Mr. Ehrlich's duties, would not give Mr. Ehrlich "Good Reason" to terminate his agreement (see footnote 4 below) and was capable of being reasonably and lawfully performed; (iii) conviction in a court of competent jurisdiction for embezzlement of our funds; and (iv) reckless or willful misconduct that is materially harmful to us.

(3) "Good Reason" is defined in Mr. Ehrlich's employment agreement as (i) a change in Mr. Ehrlich's status, title, position or responsibilities which, in Mr. Ehrlich's reasonable judgment, represents a reduction or demotion in his status, title, position or responsibilities as in effect immediately prior thereto; (ii) a reduction in Mr. Ehrlich's base salary; (iii) the failure by us to continue in effect any material compensation or benefit plan in which Mr. Ehrlich is participating; (iv) our insolvency or the filing (by any party, including us) of a petition for our winding-up; (v) any material breach by us of any provision of Mr. Ehrlich's employment agreement; (vi) any purported termination of Mr. Ehrlich's employment for cause by us which does not comply with the terms of Mr. Ehrlich's employment agreement; and (vii) any movement of the location where Mr. Ehrlich is generally to render his services to us from the Jerusalem/Tel Aviv area of Israel.

(4) "Change of Control" is defined in Mr. Ehrlich's employment agreement as (i) the acquisition (other than from us in any public offering or private placement of equity securities) by any person or entity of beneficial ownership of 20% or more of the combined voting power of our then-outstanding voting securities; or (ii) individuals who, as of January 1, 2000, were members of our Board of Directors (the "Original Board"), together with individuals approved by a vote of at least 2/3 of the individuals who were members of the Original Board and are then still members of our Board, cease for any reason to constitute at least 1/3 of our Board; or (iii) approval by our shareholders of a complete winding-up or an agreement for the sale or other disposition of all or substantially all of our assets.

(5) "Termination at Will" is defined in Mr. Ehrlich's employment agreement as Mr. Ehrlich terminating his employment with us on written notice of at least 120 days in advance of the effective date of such termination.

(6) "Other Employee Termination" means a termination by Mr. Ehrlich of his employment without giving us the advance notice of 120 days needed to make such a termination qualify as a "Termination at Will."

(7) Pursuant to Israeli law and our customary practice, we pay Mr. Ehrlich in July of each year the equivalent of ten days' "recuperation pay" at the statutory rate of NIS 371 (approximately $99) per day.

(8) Pursuant to Israeli law, we must contribute an amount equal to 7.5% of Mr. Ehrlich's base salary to a continuing education fund, up to the permissible tax-exempt salary ceiling according to the income tax regulations in effect from time to time. At December 31, 2012, the ceiling then in effect was NIS 15,712 (approximately $4,209). In Mr. Ehrlich's case, we have customarily contributed to his continuing education fund in excess of the tax-exempt ceiling, and then reimbursed Mr. Ehrlich for the tax. The sums in the table reflect this additional contribution and the resultant tax reimbursement.

(9) Under Israeli law, employees terminated other than for cause receive severance in the amount of one month's base salary for each year of work, at their salary rate at the date of termination.

Steven Esses

The following table describes the potential payments and benefits upon employment termination for Steven Esses, our President, pursuant to applicable law and the terms of his then-current employment agreement with us, as if his employment had terminated on December 31, 2012 (the last business day of the fiscal year) under the various scenarios described in the column headings as explained in the footnotes below.

See also "Item 13. Certain Relationships and Related Transactions – Consulting Agreement with Sampen Corporation," below.

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STEVEN ESSES

Payments and Benefits	Non-Renewal (1)	Death or Disability (2)	Cause(3)	Good Reason(4)	Change of Control(5)	Change of Location (6)	Retirement (7)	Early Retirement (8)	Other Employee Termination (9)
Accrued but unpaid(10):									
Base salary	$ 19,961	$ 19,961	$ 19,961	$ 19,961	$ 19,961	$ 19,961	$ 19,961	$ 19,961	$ 19,961
Vacation	88,214	88,214	88,214	88,214	88,214	88,214	88,214	88,214	88,214
Sick leave (11)	17,455	17,455	17,455	17,455	17,455	17,455	17,455	17,455	17,455
Recuperation pay(12)	277	277	277	277	277	277	277	277	277
Benefits:									
Manager's insurance (13)	3,161	3,161	3,161	3,161	3,161	3,161	3,161	3,161	3,161
Continuing education fund(14)	1,497	1,497	1,497	1,497	1,497	1,497	1,497	1,497	1,497
Contractual severance	861,068	861,068	–	861,068	861,068	861,068	861,068	861,068	–
Statutory severance(15)	177,155	177,155	–	177,155	177,155	177,155	177,155	177,155	–
Benefits	–	–	–	75,000	150,000	150,000	150,000	150,000	–
TOTAL:	$1,168,788	$1,168,788	$ 130,565	$ 1,243,788	$1,318,788	$1,318,788	$ 1,318,788	$ 1,318,788	$ 130,565

(1) "Non-renewal" is defined in Mr. Esses's employment agreement as a decision, made with written notice of at least 90 days in advance of the effective date of such decision, by either us or Mr. Esses not to renew Mr. Esses's employment for an additional two-year term. Pursuant to the terms of Mr. Esses's employment agreement, in the absence of such notice, Mr. Esses's employment agreement automatically renews.

(2) "Disability" is defined in Mr. Esses's employment agreement as a physical or mental infirmity which impairs Mr. Esses's ability to substantially perform his duties and which continues for a period of at least 180 consecutive days.

(3) "Cause" is defined in Mr. Esses's employment agreement as (i) conviction for fraud, crimes of moral turpitude or other conduct which reflects on us in a material and adverse manner; (ii) a willful failure to carry out a material directive of our Chief Executive Officer, *provided* that such directive concerned matters within the scope of Mr. Esses's duties, would not give Mr. Esses "Good Reason" to terminate his agreement (see footnote 4 below) and was capable of being reasonably and lawfully performed; (iii) conviction in a court of competent jurisdiction for embezzlement of our funds; and (iv) reckless or willful misconduct that is materially harmful to us.

(4) "Good Reason" is defined in Mr. Esses's employment agreement as (i) a change in (a) Mr. Esses's status, title, position or responsibilities which, in Mr. Esses's reasonable judgment, represents a reduction or demotion in his status, title, position or responsibilities as in effect immediately prior thereto, or (b) in the primary location from which Mr. Esses shall have conducted his business activities during the 60 days prior to such change; or (ii) a reduction in Mr. Esses's base salary; (iii) the failure by us to continue in effect any material compensation or benefit plan in which Mr. Esses is participating; (iv) our insolvency or the filing (by any party, including us) of a petition for our winding-up; (v) any material breach by us of any provision of Mr. Esses's employment agreement; and (vi) any purported termination of Mr. Esses's employment for cause by us which does not comply with the terms of Mr. Esses's employment agreement.

(5) "Change of Control" is defined in Mr. Esses's employment agreement as (i) the acquisition (other than from us in any public offering or private placement of equity securities) by any person or entity of beneficial ownership of 30% or more of the combined voting power of our then-outstanding voting securities; or (ii) individuals who, as of January 1, 2000, were members of our Board of Directors (the "Original Board"), together with individuals approved by a vote of at least 2/3 of the individuals who were members of the Original Board and are then still members of our Board, cease for any reason to constitute at least 1/3 of our Board; or (iii) approval by our shareholders of a complete winding-up or an agreement for the sale or other disposition of all or substantially all of our assets.

(6) "Change of location" is defined in Mr. Esses's employment agreement as a change in the primary location from which Mr. Esses shall have conducted his business activities during the 60 days prior to such change.

(7) "Retirement" is defined as Mr. Esses terminating his employment with us at age 65 or older on at least 150 days' prior notice.

(8) "Early Retirement" is defined as Mr. Esses terminating his employment with us at age 55 or older (up to age 65) on at least 150 days' prior notice.

(9) Any termination by Mr. Esses of his employment with us that does not fit into any of the prior categories, including but not limited to Mr. Esses terminating his employment with us, with or without notice, other than at the end of an employment term or renewal thereof, in circumstances that do not fit into any of the prior categories.

(10) Does not include a total of $186,000 in accrued but unpaid consulting fees due at December 31, 2012 to Sampen Corporation, a New York corporation owned by members of Steven Esses's immediate family, from which Mr. Esses receives a salary. See "Item 13. Certain Relationships and Related Transactions – Consulting Agreement with Sampen Corporation," below.

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(11)Limited to an aggregate of 30 days.

(12)Pursuant to Israeli law and our customary practice, we pay Mr. Esses in July of each year the equivalent of six days' "recuperation pay" at the statutory rate of NIS 365 (approximately $96) per day.

(13)Payments to managers' insurance, a benefit customarily given to senior executives in Israel, come to a total of 15.83% of base salary, consisting of 8.33% for payments to a fund to secure payment of statutory severance obligations, 5% for pension and 2.5% for disability. The managers' insurance funds reflected in the table do not include the 8.33% payments to a fund to secure payment of statutory severance obligations with respect to amounts paid prior to December 31, 2011, which funds are reflected in the table under the "Statutory severance" heading.

(14)Pursuant to Israeli law, we must contribute an amount equal to 7.5% of Mr. Esses's base salary to a continuing education fund, up to the permissible tax-exempt salary ceiling according to the income tax regulations in effect from time to time. At December 31, 2012, the ceiling then in effect was NIS 15,712 (approximately $4,112). In Mr. Esses's case, we have customarily contributed to his continuing education fund in excess of the tax-exempt ceiling, and then reimbursed Mr. Esses for the tax. The sums in the table reflect this additional contribution and the resultant tax reimbursement.

(15)Under Israeli law, employees terminated other than for cause receive severance in the amount of one month's base salary for each year of work, at their salary rate at the date of termination.

Thomas J. Paup

The following table describes the potential payments and benefits upon employment termination for Thomas J. Paup, our Vice President – Finance and Chief Financial Officer, pursuant to applicable law and the terms of his then-current employment agreement with us, as if his employment had terminated on December 31, 2012 (the last business day of the fiscal year) under the various scenarios described in the column headings as explained in the footnotes below.

THOMAS J. PAUP

Payments and Benefits	**Death or Disability(1)**	**Cause(2)**	**Change of Control(3)**	**Non-Renewal(4)**	**Termination at Will(5)**
Accrued but unpaid:					
Base salary	$ 7,491	$ 7,491	$ 7,491	$ 7,491	$ 7,491
Vacation	8,060	8,060	8,060	8,060	8,060
Contractual severance	–	–	380,000	190,000	47,500
TOTAL:	$ 15,551	$ 15,551	$ 395,551	$ 205,551	$ 63,051

(1) "Disability" is defined in Mr. Paup's employment agreement as a physical or mental infirmity which impairs Mr. Paup's ability to substantially perform his duties and which continues for a period of at least 180 consecutive days.

(2) "Cause" is defined in Mr. Paup's employment agreement as (i) a breach of trust by Mr. Paup, including, for example, but without limitation, commission of an act of moral turpitude, theft, embezzlement, self-dealing or insider trading; (ii) the unauthorized disclosure by Mr. Paup of confidential information of or relating to us; (iii) a material breach by Mr. Paup of his employment agreement; or (iv) any act of, or omission by, Mr. Paup which, in our reasonable judgment, amounts to a serious failure by Mr. Paup to perform his responsibilities or functions or in the exercise of his authority, which failure, in our reasonable judgment, rises to a level of gross nonfeasance, misfeasance or malfeasance.

(3) "Change of Control" is defined in Mr. Paup's employment agreement as (i) the acquisition (other than from us in any public offering or private placement of equity securities) by any person or entity of beneficial ownership of 30% or more of the combined voting power of our then-outstanding voting securities; or (ii) individuals who, as of December 31, 2007, were members of our Board of Directors (the "Original Board"), together with individuals approved by a vote of at least 2/3 of the individuals who were members of the Original Board and are then still members of our Board, cease for any reason to constitute at least 1/3 of our Board; or (iii) approval by our shareholders of a complete winding-up or an agreement for the sale or other disposition of all or substantially all of our assets.

(4) "Non-Renewal" is defined in Mr. Paup's employment agreement as the agreement coming to the end of the Term and not being extended or immediately succeeded by a new substantially similar employment agreement.

(5) "Termination at Will" is defined in Mr. Paup's employment agreement as Mr. Paup terminating his employment with us on written notice of at least 120 days in advance of the effective date of such termination.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information regarding the security ownership, as of February 28, 2013, of those persons owning of record or known by us to own beneficially more than 5% of our common stock and of each of our Named Executive Officers and directors, and the shares of common stock held by all of our directors and executive officers as a group.

Name and Address of Beneficial Owner(1)	Shares Beneficially Owned(2)(3)	Percentage of Total Shares Outstanding(3)
Robert S. Ehrlich	1,409,688(4)	8.7%
Steven Esses	995,480(5)	6.2%
Thomas J. Paup	293,596(6)	1.8%
Dr. Jay M. Eastman	61,193(7)	*
Edward J. Borey	62,335(8)	*
Prof. Seymour Jones	61,193(9)	*
Elliot Sloyer	192,918(10)	1.2%
Michael E. Marrus	64,483(11)	*
Arthur S. Leibowitz	46,502(12)	*
All of our directors and executive officers as a group (9 persons)	3,147,388(13)	19.5%

* Less than one percent.

(1) The address of each named beneficial owner is in care of Arotech Corporation, 1229 Oak Valley Drive, Ann Arbor, Michigan 48108.

(2) Unless otherwise indicated in these footnotes, each of the persons or entities named in the table has sole voting and sole investment power with respect to all shares shown as beneficially owned by that person, subject to applicable community property laws.

(3) Based on 16,174,187 shares of common stock outstanding as of February 28, 2013. For purposes of determining beneficial ownership of our common stock, owners of options exercisable within sixty days are considered to be the beneficial owners of the shares of common stock for which such securities are exercisable. The percentage ownership of the outstanding common stock reported herein is based on the assumption (expressly required by the applicable rules of the Securities and Exchange Commission) that only the person whose ownership is being reported has exercised his options for shares of common stock.

(4) Consists of 899,111 shares held directly by Mr. Ehrlich, 166,667 shares of unvested restricted stock (the vesting of 66,667 of which is subject to future performance criteria), 328,767 shares held as part of a trust securing the payment of Mr. Ehrlich's severance package pursuant to the terms of our employment agreement with him, 3,571 shares held by Mr. Ehrlich's wife (in which shares Mr. Ehrlich disclaims beneficial ownership), and 11,527 shares held in Mr. Ehrlich's pension plan.

(5) Consists of 596,507 shares held directly by Mr. Esses, 125,000 shares of unvested restricted stock (the vesting of 50,000 of which is subject to future performance criteria), and 273,973 shares held as part of a trust securing the payment of Mr. Esses's severance package pursuant to the terms of our employment agreement with him.

(6) Consists of 253,596 shares held directly by Mr. Paup and 40,000 unvested restricted stock units (the vesting of which is subject to future performance criteria).

(7) Consists of 39,047 shares owned directly by Dr. Eastman and 22,146 shares of unvested restricted stock.

(8) Consists of 40,189 shares owned directly by Mr. Borey and 22,146shares of unvested restricted stock.

(9) Consists of 39,047 shares owned directly by Prof. Jones and 22,146 shares of unvested restricted stock.

(10) Consists of 179,772 shares owned directly by Mr. Sloyer and 22,146 shares of unvested restricted stock.

(11) Consists of 42,337 shares owned directly by Mr. Marrus and 22,146 shares of unvested restricted stock.

(12) Consists of 24,356 shares owned directly by Mr. Leibowitz and 22,146 shares of unvested restricted stock.

(13) Includes 424,543 shares of unvested restricted stock (the vesting of 116,667 of which is subject to future performance criteria), 602,740 shares of restricted stock held as part of trusts securing payment of severance, and 40,000 unvested restricted stock units (the vesting of which is subject to future performance criteria).

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information, as of December 31, 2012, with respect to our 2004, 2007 and 2009 equity compensation plans, as well as any other stock options and warrants previously issued by us (including individual compensation arrangements) as compensation for goods and services:

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	12,228	$ 5.46	3,665,862

(1) For a description of the material features of grants of options and warrants other than options granted under our employee stock option plans, see Note 13.c. of the Notes to the Consolidated Financial Statements.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Officer Loans

On February 9, 2000, Mr. Ehrlich exercised 9,404 stock options. Mr. Ehrlich paid the exercise price of the stock options and certain taxes that we paid on his behalf by giving us a non-recourse promissory note due in 2025 in the amount of $329,163, bearing annual interest at 1% over the then-current federal funds rate announced from time to time by the *Wall Street Journal*, secured by the shares of our common stock acquired through the exercise of the options and certain compensation due to Mr. Ehrlich upon termination. As of December 31, 2012, the aggregate amount outstanding pursuant to this promissory note was $452,995.

On June 10, 2002, Mr. Ehrlich exercised 3,571 stock options. Mr. Ehrlich paid the exercise price of the stock options by giving us a non-recourse promissory note due in 2012 in the amount of $36,500, bearing simple annual interest at a rate equal to the lesser of (i) 5.75%, and (ii) 1% over the then-current federal funds rate announced from time to time, secured by the shares of our common stock acquired through the exercise of the options. As of December 31, 2012, the aggregate amount outstanding pursuant to this promissory note was $46,593, which was not repaid and was charged to paid in capital in the fourth quarter. Pursuant to the terms of the note the shares of stock securing the note were returned to us and retired in 2013 when the loan was not repaid.

Consulting Agreement with Sampen Corporation

We have a consulting agreement with Sampen Corporation that we executed in March 2005, effective as of January 1, 2005. Sampen is a New York corporation owned by members of Steven Esses's immediate family, and Mr. Esses is an employee of both the Company and of Sampen. The term of this consulting agreement as extended was to have expired on December 31, 2012, and is extended automatically for additional terms of two years each unless either Sampen or we terminate the agreement sooner. We had previously given notice to Sampen of our intention to terminate this agreement effective December 31, 2012, but by mutual agreement we withdrew this notice prior to its effectiveness.

Pursuant to the terms of our agreement with Sampen, Sampen provides one of its employees to us for such employee to serve as our President. We pay Sampen $12,800 per month, plus an annual bonus, on a sliding scale, in an amount equal to a minimum of 20% of Sampen's annual base compensation then in effect, up to a maximum of 75% of its annual base compensation then in effect if the results we actually attain for the year in question are 120% or more of the amount we budgeted at the beginning of the year. We also pay Sampen, to cover the cost of our use of Sampen's offices as an ancillary New York office and the attendant expenses and insurance costs, an amount equal to 16% of each monthly payment of base compensation.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

In accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the Audit Committee's charter, all audit and audit-related work and all non-audit work performed by our independent accountants, BDO USA, LLP ("BDO"), is approved in advance by the Audit Committee, including the proposed fees for such work. The Audit Committee is informed of each service actually rendered.

- *Audit Fees.* Audit fees billed or expected to be billed to us by BDO for the audit of the financial statements included in our Annual Report on Form 10-K, and reviews of the financial statements included in our Quarterly Reports on Form 10-Q, for the years ended December 31, 2012 and 2011 totaled approximately $313,000 and $340,000, respectively.

- *Audit-Related Fees*. BDO billed or expected to bill us $420,000 and $172,000 (principally consultation related to mergers and acquisitions) for the fiscal years ended December 31, 2012 and 2011, respectively, for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements.

- *Tax Fees.* BDO billed or expected to bill us an aggregate of $51,000 and $87,000 (including consultation related to mergers and acquisitions) for the fiscal years ended December 31, 2012 and 2011, respectively, for tax services, principally advice regarding the preparation of income tax returns.

- *All Other Fees.* BDO billed or expected to bill us an aggregate of zero for the fiscal years ended December 31, 2012 and 2011, for permitted non-audit services.

Applicable law and regulations provide an exemption that permits certain services to be provided by our outside auditors even if they are not pre-approved. We have not relied on this exemption at any time since the Sarbanes-Oxley Act was enacted.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Financial Statements – See Index to Financial Statements on page 31 above and the financial pages following page 55 below.
(2) Financial Statements Schedules – Schedule II - Valuation and Qualifying Accounts. All schedules other than those listed above are omitted because of the absence of conditions under which they are required or because the required information is presented in the financial statements or related notes thereto.
(3) Exhibits – The following Exhibits are either filed herewith or have previously been filed with the Securities and Exchange Commission and are referred to and incorporated herein by reference to such filings:

	Exhibit No.	Description
(1)	3.1	Amended and Restated Certificate of Incorporation
(3)	3.1.1	Amendment to our Amended and Restated Certificate of Incorporation
(5)	3.1.2	Amendment to our Amended and Restated Certificate of Incorporation
(6)	3.1.3	Amendment to our Amended and Restated Certificate of Incorporation
(8)	3.1.4	Amendment to our Amended and Restated Certificate of Incorporation
(9)	3.1.5	Amendment to our Amended and Restated Certificate of Incorporation
(2)	3.2	Amended and Restated By-Laws
(7)	4.1	Specimen Certificate for shares of common stock, $0.01 par value
(7)	10.1	Promissory Note dated February 9, 2000, from Robert S. Ehrlich to us
(4)	10.2	Promissory Note dated July 1, 2002 from Robert S. Ehrlich to us
(4)	10.3	Lease dated April 8, 1997, between AMR Holdings, L.L.C. and FAAC Incorporated
† (6)	10.4	Consulting Agreement, effective as of January 1, 2005, between us and Sampen Corporation
(7)	10.5	Lease dated February 10, 2006 between Arbor Development Company LLC and FAAC Incorporated
† (10)	10.6	Fifth Amended and Restated Employment Agreement, dated February 2, 2012 and effective as of January 1, 2012, between us, EFL and Robert S. Ehrlich
† (10)	10.7	Second Amended and Restated Employment Agreement, dated February 2, 2012 and effective as of January 1, 2012, between EFL and Steven Esses
† (10)	10.8	Second Amended and Restated Employment Agreement between the Company and Thomas J. Paup dated February 2, 2012 and effective as of January 1, 2012
*	10.9	Credit Agreement among FAAC Incorporated, the Company and Fifth Third Bank dated April 30, 2012
*	10.10	Security Agreement between FAAC Incorporated and Fifth Third Bank dated April 30, 2012
*	10.11	Guaranty of the Company and Electric Fuel Battery Corporation to Fifth Third Bank dated April 30, 2012
(11)	21.1	List of Subsidiaries of the Registrant
*	23.1	Consent of BDO USA, LLP
*	31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*	31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*	32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*	32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
	101.INS	XBRL Instance Document
	101.SCH	XBRL Taxonomy Extension Schema Document
	101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
	101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
	101.LAB	XBRL Taxonomy Extension Label Linkbase Document
	101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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* Filed herewith
† Includes management contracts and compensation plans and arrangements
(1) Incorporated by reference to our Registration Statement on Form S-1 (Registration No. 33-73256), which became effective on February 23, 1994
(2) Incorporated by reference to our Registration Statement on Form S-1 (Registration No. 33-97944), which became effective on February 5, 1996
(3) Incorporated by reference to our Current Report on Form 8-K filed January 6, 2003
(4) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2003
(5) Incorporated by reference to our Current Report on Form 8-K filed July 15, 2004
(6) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2004
(7) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2005
(8) Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006
(9) Incorporated by reference to our Current Report on Form 8-K filed January 3, 2008
(10) Incorporated by reference to our Current Report on Form 8-K filed June 9, 2009
(11) Incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2011

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AROTECH CORPORATION

Date: April 1, 2013	By: /s/ Robert S. Ehrlich Name: Robert S. Ehrlich Title: Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Robert S. Ehrlich Robert S. Ehrlich	Chairman Chief Executive Officer and Director (Principal Executive Officer)	April 1, 2013
/s/ Thomas J. Paup Thomas J. Paup	Vice President – Finance (Principal Financial Officer)	April 1, 2013
/s/ Norman E. Johnson Norman E. Johnson	Controller (Principal Accounting Officer)	April 1, 2013
/s/ Steven Esses Steven Esses	President and Director	April 1, 2013
/s/ Jay M. Eastman Dr. Jay M. Eastman	Director	April 1, 2013
/s/ Edward J. Borey Edward J. Borey	Director	April 1, 2013
/s/ Seymour Jones Seymour Jones	Director	April 1, 2013
/s/ Elliot Sloyer Elliot Sloyer	Director	April 1, 2013
/s/ Michael E. Marrus Michael E. Marrus	Director	April 1, 2013
/s/ Arthur S. Leibowitz Arthur S. Leibowitz	Director	April 1, 2013

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Arotech Corporation:

Ann Arbor, Michigan

We have audited the accompanying consolidated balance sheets of Arotech Corporation and subsidiaries (the "Company") as of December 31, 2012 and 2011 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arotech Corporation and subsidiaries at December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ BDO USA, LLP

Grand Rapids, Michigan

April 1, 2013

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AROTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

In U.S. dollars

	December 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,580,627	$ 2,324,163
Restricted collateral deposits	186,306	1,679,609
Trade receivables	9,639,709	11,883,779
Unbilled receivables	13,374,004	5,722,781
Other accounts receivable and prepaid expenses	1,178,780	1,453,152
Inventories	10,033,525	9,503,171
Discontinued operations – short term	389,272	6,032,625
Total current assets	36,382,223	38,599,280
LONG TERM ASSETS:		
Severance pay fund	4,177,488	3,554,877
Other long term receivables	55,156	58,596
Property and equipment, net	4,464,580	4,631,007
Other intangible assets, net	2,238,273	3,153,104
Goodwill	30,562,298	30,421,198
Discontinued operations – long term	–	683,883
Total long term assets	41,497,795	42,502,665
Total assets	$ 77,880,018	$ 81,101,945

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

In U.S. dollars

	December 31, 2012	December 31, 2011
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 7,156,327	$ 6,694,127
Other accounts payable and accrued expenses	4,252,910	3,634,133
Current portion of capitalized leases	–	11,053
Current portion of long term debt	888,839	94,595
Short term bank credit	9,787,779	6,618,431
Deferred revenues	3,798,086	4,019,425
Discontinued operations – short term	588,592	7,306,967
Total current liabilities	26,472,533	28,378,731
LONG TERM LIABILITIES:		
Accrued severance pay	6,133,042	5,268,827
Long term portion of capitalized leases	–	495
Long term portion of debt	992,917	1,018,750
Deferred tax liability	4,920,021	4,321,521
Other long term liabilities	27,590	24,345
Discontinued operations – long term	912,813	963,814
Total long-term liabilities	12,986,383	11,597,752
STOCKHOLDERS' EQUITY:		
Share capital –		
Common stock – $0.01 par value each;		
Authorized: 50,000,000 shares as of December 31, 2012 and 2011; Issued and outstanding: 16,151,298 shares and 15,570,491 shares as of December 31, 2012 and 2011, respectively	161,513	155,705
Preferred shares – $0.01 par value each;		
Authorized: 1,000,000 shares as of December 31, 2012 and 2011; No shares issued or outstanding as of December 31, 2012 and 2011	–	–
Additional paid-in capital	223,181,705	222,786,426
Accumulated deficit	(185,248,923)	(182,232,246)
Notes receivable from stockholders	(908,054)	(954,647)
Accumulated other comprehensive income	1,234,861	1,370,224
Total stockholders' equity	38,421,102	41,125,462
Total liabilities and stockholders' equity	$ 77,880,018	$ 81,101,945

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

In U.S. dollars

	December 31, 2012	December 31, 2011
Revenues	$ 80,050,434	$ 62,135,578
Cost of revenues	62,141,038	45,950,930
Research and development expenses	2,043,718	1,401,868
Selling and marketing expenses	5,487,910	5,254,891
General and administrative expenses	10,052,765	10,677,855
Amortization of intangible assets	1,185,539	1,905,097
Total operating costs and expenses	80,910,970	65,190,641
Operating loss	(860,536)	(3,055,063)
Other income	(8,284)	(43,852)
Allowance for legal settlements, net	–	12,333
Financial expense, net	547,986	331,006
Total other expense	539,702	299,487
Loss from continuing operations before income tax expense	(1,400,238)	(3,354,550)
Income tax expense	628,156	1,608,611
Loss from continuing operations	(2,028,394)	(4,963,161)
Loss from discontinued operations, net of income tax	(988,283)	(6,563,844)
Net loss	(3,016,677)	(11,527,005)
Other comprehensive income, net of income tax - $0 for both years		
Foreign currency translation adjustment	(135,363)	(769,515)
Comprehensive loss	$ (3,152,040)	$ (12,296,520)
Basic and diluted net loss per share – continuing operations	$ (0.14)	$ (0.35)
Basic and diluted net loss per share – discontinued operations	$ (0.07)	$ (0.47)
Basic and diluted net loss per share	$ (0.21)	$ (0.82)
Weighted average number of shares used in computing basic and diluted net loss per share	14,713,583	14,011,566

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

In U.S. dollars

	Common stock		Additional paid-in capital	Accumulated deficit	Notes receivable from stockholders	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount					
Balance as of January 1, 2011	14,842,283	$ 148,423	$221,856,095	$(170,705,241)	$ (954,647)	$ 2,139,739	$ 52,484,369
Treasury stock purchase and retirement	(75,402)	(754)	(112,544)	–	–	–	(113,298)
Conversion of convertible notes	324,326	3,243	639,176	–	–	–	642,419
Stock based compensation	–	–	408,492	–	–	–	408,492
Restricted stock issued	414,284	4,143	(4,143)	–	–	–	–
Restricted stock units vested	65,000	650	(650)	–	–	–	–
Foreign currency translation adjustment	–	–	–	–	–	(769,515)	(769,515)
Net loss	–	–	–	(11,527,005)	–	–	(11,527,005)
Balance as of December 31, 2011	15,570,491	$ 155,705	$222,786,426	$(182,232,246)	$ (954,647)	$ 1,370,224	$ 41,125,462

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)

In U.S. dollars

	Common stock		Additional paid-in	Accumulated	Notes receivable from	Accumulated other comprehensive	Total stockholders'
	Shares	Amount	capital	deficit	stockholders	income (loss)	equity
Balance as of January 1, 2012	15,570,491	$ 155,705	$222,786,426	$(182,232,246)	$ (954,647)	$ 1,370,224	$ 41,125,462
Stock based compensation	–	–	447,680	–	–	–	447,680
Restricted stock issued	517,582	5,176	(5,176)	–	–	–	–
Restricted stock units vested	63,225	632	(632)	–	–	–	–
Write-down of shareholder loans	–	–	(46,593)	–	46,593	–	–
Foreign currency translation adjustment	–	–	–	–	–	(135,363)	(135,363)
Net loss	–	–	–	(3,016,677)	–	–	(3,016,677)
Balance as of December 31, 2012	16,151,298	$ 161,513	$223,181,705	$(185,248,923)	$ (908,054)	$ 1,234,861	$ 38,421,102

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

In U.S. dollars

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,016,677)	$ (11,527,005)
Adjustments required to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	1,087,178	1,103,943
Amortization of intangible assets	1,185,539	1,905,097
Amortization of debt discount	–	39,351
Stock based compensation	447,680	408,492
Adjustment to value of warrants and embedded features on the senior convertible notes	–	(161,339)
Capital (gain) loss from sale of property and equipment	15,668	(150)
Deferred tax provision	598,500	1,658,813
Changes in continuing operating assets and liabilities:		
Severance pay, net	241,604	186,238
Trade receivables	2,244,070	186,547
Other accounts receivable and prepaid expenses	277,812	(416,270)
Inventories	(530,354)	(1,735,022)
Unbilled receivables	(7,651,223)	(2,441,960)
Deferred revenues	(221,339)	(1,749,100)
Trade payables	462,200	3,437,054
Other accounts payable and accrued expenses	622,022	(2,026,504)
Discontinued operations, including impairment of goodwill and other long-lived assets	(165,884)	5,315,233
Net cash provided by (used in) operating activities	(4,403,204)	(5,816,582)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(950,132)	(2,633,562)
Additions to capitalized software development	(334,700)	(406,118)
Proceeds from sale of property and equipment	13,713	12,354
Sales of available for sale securities	–	399,449
Decrease (increase) in restricted collateral deposits	1,493,303	(6,820)
Discontinued operations	148,661	(114,674)
Net cash provided by (used in) investing activities	$ 370,845	$ (2,749,371)

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

In U.S. dollars

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (repayment of) long term debt	$ 756,863	$ (816,415)
Change in short term bank credit	3,169,348	4,130,226
Purchase of treasury stock	–	(113,298)
Additions to long term debt	–	1,125,000
Discontinued operations	(393,314)	293,509
Net cash provided by (used in) financing activities	3,532,897	4,619,022
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(499,462)	(3,946,931)
CASH DIFFERENCES DUE TO EXCHANGE RATE CHANGES	(212,471)	(97,961)
CASH DIFFERENCES DUE TO EXCHANGE RATE CHANGES – DISCONTINUED OPERATIONS	–	108,689
NET CHANGE IN CASH AND CASH EQUIVALENTS - DISCONTINUED	(31,603)	459,881
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,324,163	5,800,485
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 1,580,627	$ 2,324,163
SUPPLEMENTARY INFORMATION ON NON-CASH AND OTHER TRANSACTIONS:		
Interest paid during the year	$ 400,905	$ 160,215
Taxes on income paid during the year	$ 38,118	$ 160,847
Note conversion to common stock	$ –	$ 642,419

The accompanying notes are an integral part of the consolidated financial statements.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 1:– GENERAL

a. Corporate structure:

Arotech Corporation ("Arotech") and its wholly-owned subsidiaries (the "Company") provide defense and security products for the military, law enforcement and homeland security markets, including advanced zinc-air and lithium batteries and chargers, and multimedia interactive simulators/trainers. The Company operates primarily through its wholly-owned subsidiaries FAAC Incorporated ("FAAC"), based in Ann Arbor, Michigan with locations in Royal Oak, Michigan and Orlando, Florida; Electric Fuel Battery Corporation ("EFB"), based in Auburn, Alabama; and Epsilor-Electric Fuel Ltd. ("Epsilor-EFL"), based in Dimona, Israel with a location in Beit Shemesh, Israel. EFB and Epsilor-EFL form the Company's Battery and Power Systems Division. IES Interactive Training ("IES") and Realtime Technologies ("RTI") were merged with FAAC in 2007 and 2010, respectively, to create Arotech's Training and Simulation Division. Pursuant to a management decision in the fourth quarter of 2011 and sale in 2012, the Company's Armor Division, consisting of M.D.T. Protective Industries, Ltd. ("MDT"), based in Lod, Israel, and MDT Armor Corporation ("MDT Armor"), based in Auburn, Alabama, along with the trade name of Armour of America Incorporated ("AoA"), are reflected as discontinued operations for all periods presented.

b. Impairment of goodwill and other long-lived assets:

Goodwill and indefinite-lived intangible assets are tested for impairment at least annually and between annual tests in certain circumstances, and written down when impaired. Goodwill is tested for impairment by comparing the fair value of the Company's reporting units with their carrying value. All of the Company's continuing reporting units have goodwill. Fair value is determined using discounted cash flows. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates and weighted average cost of capital.

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-08, "Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment." ASU 2011-08 amends the guidance in Accounting Standards Codification ("ASC") 350, Intangibles – Goodwill and Other. Under the revised guidance, when testing goodwill for impairment, the Company has the option of performing a qualitative assessment in order to determine whether it needs to calculate the fair value of a reporting unit. If the Company determines, on the basis of qualitative factors, that it is more likely than not that the fair value of the reporting unit is greater than the carrying amount, the two-step impairment test would not be required. The Company early adopted the ASU in 2011.

In both 2012 and 2011, the Company determined, using qualitative factors, that the goodwill for the Training and Simulation reporting unit was not impaired. In both 2012 and 2011, the Company completed the first step of the quantitative analysis of the goodwill in the Battery and Power Systems reporting unit, in which it computed a fair value of that reporting unit. Because the fair value was greater than the carrying value of the unit at the measurement date, the second step of the quantitative impairment assessment was not required and no goodwill was impaired. Although the valuation for Battery and Power Systems Division exceeded the reporting unit's carrying value by 14%, the Company will continue to monitor the actual results of the reporting unit versus the forecast used for the impairment review and reevaluate the goodwill as required. Additionally, the Company performed a complete long-lived asset impairment review of the discontinued Armor reporting unit in 2011 that resulted in the full impairment of that unit's goodwill ($1,792,339) and property and equipment ($1,487,219), as reported in discontinued operating results.

Although the cumulative carrying value of the Company's reporting units exceeded the Company's market value as determined by its stock price as of the impairment review, management nevertheless determined that the fair value of the Training and Simulation and Battery and Power Systems reporting units exceeded their respective carrying values, and therefore, there would be no impairment charges relating to goodwill for these reporting units. Several factors contributed to this determination:

- The long term horizon of the valuation process versus a short term valuation using current market conditions;
- The valuation by individual business segments versus the market share value based on the Company as a whole, including unallocated corporate costs;

- The Company’s stock is thinly traded and widely dispersed with minimal institutional ownership, and thus not followed by major market analysts, leading management to conclude that the market in the Company’s securities was not acting as an informationally efficient reflection of all known information regarding the Company and thereby serves to understate their value; and

- Control premiums reflected in the reporting unit fair values but not in the Company’s stock price.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 1:– GENERAL (Cont.)

The Company's long-lived assets and amortizable identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the carrying amount of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

c. Related parties

The Company has had a consulting agreement with Sampen Corporation since 2005. Sampen is a New York corporation owned by members of the immediate family of one of the Company's executive officers, and this executive officer is an employee of both the Company and of Sampen. The term of this consulting agreement was extended automatically for an additional term of two years until December 31, 2014, unless either Sampen or the Company terminates the agreement sooner.

Pursuant to the terms of the Company's agreement with Sampen, Sampen provides one of its employees to the Company for such employee to serve as the Company's President. The Company pays Sampen $12,800 per month, plus an annual bonus, on a sliding scale, in an amount equal to a minimum of 20% of Sampen's annual base compensation then in effect, up to a maximum of 75% of its annual base compensation then in effect if the results the Company actually attained for the year in question are 120% or more of the amount the Company budgeted at the beginning of the year. The Company also pays Sampen to cover the cost of the Company's use of Sampen's offices as an ancillary New York office and the attendant expenses and insurance costs, an amount equal to 16% of each monthly payment of base compensation.

During the years ended December 31, 2012 and 2011, the Company incurred a total of $185,856 each year related to Sampen.

On February 9, 2000, Mr. Ehrlich, the Company's Chief Executive Officer, exercised 9,404 stock options. Mr. Ehrlich paid the exercise price of the stock options and certain taxes that the Company paid on his behalf by giving the Company a non-recourse promissory note due in 2025 in the amount of $329,163, bearing annual interest at 1% over the then-current federal funds rate announced from time to time by the *Wall Street Journal*, secured by the shares of the Company's common stock acquired through the exercise of the options and certain compensation due to Mr. Ehrlich upon termination. As of December 31, 2012 and 2011, the aggregate amount outstanding pursuant to this promissory note was $452,995. Additionally, there is a former employee with the same arrangement.

On June 10, 2002, Mr. Ehrlich exercised 3,571 stock options. Mr. Ehrlich paid the exercise price of the stock options by giving the Company a non-recourse promissory note due in 2012 in the amount of $36,500, bearing simple annual interest at a rate equal to the lesser of (i) 5.75%, and (ii) 1% over the then-current federal funds rate announced from time to time, secured by the shares of the Company's common stock acquired through the exercise of the options. As of December 31, 2012, the aggregate amount outstanding pursuant to this promissory note was $46,593, which was not repaid and was charged to paid in capital in the fourth quarter of 2012. Pursuant to the terms of the note, the shares of stock securing the note were returned to the Company and retired in 2013 when the loan was not repaid.

d. Discontinued operations

In December 2011, the Company's Board of Directors approved management's plan to sell the Armor Division. On March 8, 2012, the Company signed a non-binding letter of intent to sell the division to an Israeli public company. The sale of the assets was completed in June 2012 at a cash purchase price of $50,000. Unless otherwise indicated, discontinued operations are not included in the Company's reported results.

Unless otherwise noted, amounts and disclosures throughout the Notes to Consolidated Financial Statements relate to the Company's continuing operations. The assets and liabilities of the discontinued operation after impairment, the revenues and expenses of the discontinued operation and a list of unusual expenses relating to the discontinued operation are shown below.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 1:– GENERAL (Cont.)

ASSETS AND LIABILITIES – DISCONTINUED	**December 31, 2012**	**December 31, 2011**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 106,548	$ 74,945
Restricted collateral deposits	44,827	193,488
Trade receivables	164,824	2,131,599
Other accounts receivable and prepaid expenses	73,073	133,149
Inventories	–	3,499,444
Total current assets	389,272	6,032,625
LONG TERM ASSETS:		
Severance pay fund	–	683,883
Total long term assets	–	683,883
Total assets	$ 389,272	$ 6,716,508
LIABILITIES		
CURRENT LIABILITIES:		
Trade payables	$ 75,862	$ 4,165,367
Other accounts payable and accrued expenses	453,443	2,250,584
Current portion of long term debt (building mortgage)	59,287	401,600
Deferred revenues	–	489,416
Total current liabilities	588,592	7,306,967
LONG TERM LIABILITIES		
Long term debt (building mortgage)	912,813	963,814
Total long-term liabilities	912,813	963,814
Total liabilities	$ 1,501,405	$ 8,270,781

REVENUE AND EXPENSES – DISCONTINUED	**December 31, 2012**	**December 31, 2011**
Revenues	$ 6,890,664	$ 17,411,879
Cost of revenues	6,476,082	15,924,925
Research and development expenses	–	643,201
Selling and marketing expenses	301,990	835,957
General and administrative expenses	493,868	2,504,746
Impairment of long lived assets	–	3,279,558
Amortization of intangible assets	–	13,350
Total operating costs and expenses	7,271,940	23,201,737
Operating loss	(381,276)	(5,789,858)
Other (income) expense	(288,594)	20,909
Financial expense, net	66,111	483,624
Loss from affiliated company	–	269,453
Total other expense	(222,483)	773,986

Loss before income tax benefit	(158,793)	(6,563,844)
Income tax benefit	–	–
Net loss	$ (158,793)	$ (6,563,844)
Loss on sale, net of $0 income taxes	$ (829,490)	$ –

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 1:– GENERAL (Cont.)

Non-recurring charges related to discontinued operations		**Year Ended December 31, 2011**
Impairment of goodwill and intangibles	$	1,792,339
Impairment of property and equipment, net		1,487,219
Write off of affiliated company loan and investment		269,453
Adjustments to severance - Israel		301,876
Total	$	3,850,887

The Company retained the facility used by the Armor operations and currently leases it to the buyer of those operations under a three year operating lease for $9,300 per month. The Company is marketing the facility for sale (it is included within Discontinued Operations), and it has no recorded book value as of December 31, 2012. The Company remains responsible for the outstanding mortgage on this facility, which was $950,000 as of December 31, 2012 (as further described in Note 11), and which it expects to either transfer with the sale of the facility or pay off with the related sales proceeds plus other available cash resources as necessary

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A majority of the revenues of the Company are generated in U.S. dollars ("dollars"). In addition, a substantial portion of the Company's costs are incurred in dollars. Management believes that the dollar is the primary currency of the economic environment in which the Company operates. Thus, the functional and reporting currency of the Company including most of its subsidiaries is the dollar. Accordingly, monetary accounts maintained in currencies other than dollars are remeasured into dollars, with resulting gains and losses reflected in the consolidated statements of operations as financial income or expenses, as appropriate.

The majority of transactions of MDT (discontinued) and Epsilor-EFL are in New Israel Shekels ("NIS") and a substantial portion of MDT's and Epsilor-EFL's costs is incurred in NIS. Management believes that the NIS is the functional currency of MDT and Epsilor-EFL. Accordingly, the financial statements of MDT and Epsilor-EFL have been translated into dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the weighted average exchange rate for the period. The resulting translation adjustments are reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. All accumulated other comprehensive income related to the Armor Division, in the amount of $189,969, was recorded as an adjustment to the loss on sale in discontinued operations. As of December 31, 2012, all accumulated other comprehensive income represents foreign currency translation adjustments.

c. Principles of consolidation:

The consolidated financial statements include the accounts of Arotech and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with maturities of three months or less when acquired.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Restricted collateral deposits:

Restricted collateral deposits are primarily invested in highly liquid deposits which are used as a security for the Company's performance guarantees at FAAC and Epsilor-EFL.

f. Marketable securities:

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Investment in securities are classified as available-for-sale and stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders' equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statements of operations. The Company did not hold any marketable securities at either December 21, 2012 or 2011.

g. Inventories:

Inventories are stated at the lower of cost or market value. Inventory write-offs and write-down provisions are provided to cover risks arising from slow-moving items or technological obsolescence and for market prices lower than cost. The Company periodically evaluates the quantities on hand relative to current and historical selling prices and historical and projected sales volume. Based on this evaluation, provisions are made to write inventory down to its market value. In 2012 and 2011, the Company wrote off $57,000 and $145,000, respectively, of obsolete inventory, which has been included in the cost of revenues.

Cost is determined as follows:

Raw and packaging materials – by the average cost method or FIFO.

Work in progress – represents the cost of manufacturing with additions of allocable indirect and direct manufacturing costs.

Finished products – on the basis of direct manufacturing costs with additions of allocable indirect manufacturing costs.

h. Property and equipment:

Property and equipment are stated at cost net of accumulated depreciation and investment grants received from the State of Israel for investments in fixed assets under the Law for the Encouragement of Capital Investments, 5719-1959 (the "Investments Law"). The Company did not receive any investment grants in 2012 and 2011.

Depreciation is calculated by the straight-line method over the following estimated useful lives of the assets:

	Depreciable life (in years)
Computers and related equipment	3 to 5
Motor vehicles	5 to 7
Office furniture and equipment	10
Machinery, equipment and installations	10
Buildings	30
Land	Not depreciated
Leasehold improvements	Shorter of the term of the lease or the life of the asset

Demo inventory	5

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In U.S. dollars

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Revenue recognition:

The Company is a defense and security products and services company, engaged in two business areas: interactive simulation for military, law enforcement and commercial markets; and batteries and charging systems for the military. During 2012 and 2011, the Company recognized revenues (i) from the sale and customization of interactive training systems and from the maintenance services in connection with such systems (Training and Simulation Division); (ii) from the sale of batteries, chargers and adapters to the military, and under certain development contracts with the U.S. Army (Battery and Power Systems Division); and (iii) from the sale of lifejacket lights (Battery and Power Systems Division).

Revenues from products sold by the Battery and Power Systems Division are recognized when persuasive evidence of an agreement exists, delivery has occurred, the fee is fixed or determinable, collectability is probable, and no further obligation remains. Typically revenue is recognized, per the contract, when the transaction is entered into the U.S. Government's Wide Area Workflow system, which occurs after the products have been accepted at the plant or when shipped. Sales to other entities are recorded in accordance with the contract, either when shipped or delivered. Normally, in this division, there are no further obligations that would preclude the recognition of revenue.

Revenues from contracts in the Training and Simulation Division that involve customization of the system to customer specifications are recognized using contract accounting on a percentage of completion method, in accordance with the "Input Method." The amount of revenue recognized is based on the percentage to completion achieved. The percentage to completion is measured by monitoring progress using records of actual time, materials and other costs incurred to date in the project compared to the total estimated project requirement. Estimates of total project requirements are based on prior experience of customization, delivery and acceptance of the same or similar technology and are reviewed and updated regularly by management. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined, in the amount of the estimated loss on the entire contract. Normally there are no further obligations that would preclude the recognition of revenue.

The Company believes that the use of the percentage of completion method is appropriate as the Company has the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. In addition, contracts executed include provisions that clearly specify the enforceable rights regarding services to be provided and received by the parties to the contracts, the consideration to be exchanged and the manner and the terms of settlement, including in cases of terminations for convenience. In all cases, the Company expects to perform its contractual obligations and its customers are expected to satisfy their obligations under the contract.

Revenues from simulators that do not require significant customization are recognized when persuasive evidence of an agreement exists, delivery has occurred, no significant obligations with regard to implementation remain, the fee is fixed or determinable and collectability is probable.

Maintenance and support revenue included in multiple element arrangements is deferred and recognized on a straight-line basis over the term of the maintenance and support services. Revenues from training are recognized when it is performed. The Vendor Specific Objective Evidence ("VSOE") of fair value of the maintenance, training and support services is determined based on the price charged when sold separately or when renewed.

Unbilled receivables include cost and gross profit earned in excess of billing.

Deferred revenues include unearned amounts received under maintenance and support services, customer prepayments and billing in excess of costs and estimated earnings on uncompleted contracts.

j. Warranty:

The Company typically offers a one to two year warranty for most of its products. The specific terms and conditions of those warranties vary depending upon the product sold and country in which the Company does business. The Company estimates the costs that may be incurred under its basic limited warranty, including parts and labor, and records deferred revenue in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty costs include the number of installed units, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its reserves and adjusts the amounts as necessary. (See Note 17.)

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In U.S. dollars

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Research and development cost:

The Company capitalizes certain software development costs, subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon the completion of a working model or a detailed program design. Research and development costs incurred in the process of developing product improvements or new products are generally charged to expenses as incurred. Significant costs incurred by the Company between completion of the working model or a detailed program design and the point at which the product is ready for general release have been capitalized. Capitalized software costs will be amortized by the greater of the amount computed using: (i) the ratio that current gross revenues from sales of the software bears to the total of current and anticipated future gross revenues from sales of that software, or (ii) the straight-line method over the estimated useful life of the product (one to three years). The Company assesses the net realizable value of this intangible asset on a regular basis by determining whether the amortization of the asset over its remaining life can be recovered through undiscounted future operating cash flows from the specific software product sold. Based on its most recent analyses, management believes that no impairment of capitalized software development costs exists as of December 31, 2012.

In 2012 and 2011, the Training and Simulation Division capitalized approximately $335,000 and $406,000, respectively, in software development costs that will be amortized on a straight-line method over 2 years, the useful life of the software.

l. Income taxes:

The Company accounts for income taxes under the asset and liability method, whereby deferred tax assets and liability account balances are determined based on tax credit carryforwards and differences between the financial reporting and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

The Company has adopted the provisions of the FASB ASC 740-10. FASB ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must determine whether it is "more-likely-than-not" that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If the Company's determinations and estimates prove to be inaccurate, the resulting adjustments could be material to the Company's future financial statements.

m. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted collateral deposits and trade receivables. Cash and cash equivalents are invested mainly in U.S. dollar deposits with major Israeli and U.S. banks. Such deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The trade receivables of the Company are mainly derived from sales to customers located primarily in the United States and Israel along with the countries listed in footnote 16.c. Management believes that credit risks are moderated by the diversity of its end customers and geographical sales areas. The Company performs ongoing credit evaluations of its customers' financial condition. An allowance for doubtful accounts is determined with respect to those accounts that the Company has determined to be doubtful of collection.

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In U.S. dollars

NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company had no off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

n. Basic and diluted net loss per share:

Basic net loss per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted net loss per share is computed based on the weighted average number of shares of common stock outstanding during each year, plus dilutive common stock equivalents related to outstanding stock options, non-vested restricted stock, warrants and convertible debt. All common stock equivalents have been excluded from the calculation of the diluted net loss per common share because all such securities are anti-dilutive for all periods presented. The total weighted average number of shares related to the outstanding common stock equivalents excluded from the calculations of diluted net loss per share was 614,968 and 701,411 for the years ended December 31, 2012 and 2011, respectively.

o. Accounting for stock-based compensation:

Stock-based awards to employees are recognized as compensation expense based on the calculated fair value on the date of grant. The Company determines the fair value of options using the Black-Scholes option pricing model. This model requires subjective assumptions, including future stock price volatility and expected term.

The Company did not grant any options in 2012 or 2011. The Company assumed a 20% forfeiture rate on existing options for both years. The Company typically uses a 5-10% forfeiture rate for restricted stock and restricted stock units and adjusts both forfeiture rates based on historical forfeitures. Each restricted stock unit is equal to one share of Company stock and is redeemable only for stock.

p. Fair value of financial instruments:

The following methods and assumptions were used by the Company in estimating their fair value disclosures for financial instruments using the required three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which may require the Company to develop its own assumptions.

The carrying amounts of cash and cash equivalents, restricted collateral deposits, trade and other receivables, short-term bank credit, and trade payables approximate their fair value due to the short-term maturity of such instruments.

The fair value of available for sale securities was based on the quoted market price.

The fair values of long-term promissory notes are estimated by discounting the future cash flows using current interest rates for loans of similar terms and maturities. The carrying amount of the long-term liabilities approximates their fair value (Level 3).

q. Severance pay:

The Company’s liability for severance pay for its Israeli employees is calculated pursuant to Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. Israeli employees are entitled to one month’s salary for each year of employment, or a portion thereof. The Company’s liability for all of its Israeli employees is fully provided by monthly deposits with severance pay funds held by insurance companies on behalf of the employees, insurance policies and by accrual. The fair value of these funds, which are considered Level 2 fair value measurements, is recorded as an asset in the Company’s balance sheet.

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NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In addition, according to certain employment agreements, the Company is obligated to provide for a special severance pay in addition to amounts due to certain employees pursuant to Israeli severance pay law. As of December 31, 2012, the Company had made a provision of $217,733 for this special severance pay. As of December 31, 2012 and 2011, the unfunded severance pay in that regard amounted to $1,267,844 and $1,050,111, respectively.

Pursuant to the terms of the respective employment agreements between the Company and its Chief Executive Officer and its President, funds to secure payment of their respective contractual severance amounts are to be deposited for their benefit, with payments to be made pursuant to an agreed-upon schedule. These funds continue to be owned by the Company, which benefits from all gains and bears the risk of all losses resulting from investments of these funds.

The deposited funds include profits and losses accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The fair value of the deposited funds is based on the cash surrender value of these policies and includes immaterial profits.

In April 2009, the Company, with the agreement of its Chief Executive Officer and its President, funded an additional portion of their severance security by means of issuing to them, in trust, restricted stock having a value (based on the closing price of the Company's stock on the Nasdaq Stock Market on the date on which the executives and the Company's board of directors agreed to this arrangement) of $440,000, a total of 602,740 shares. The Company agreed with the executives that the economic risk of gain or loss on these shares is to be borne by them. Should they leave the Company's employ under circumstances in which they are not entitled to their severance package (primarily, termination for Cause as defined in their employment agreement), these shares would be returned to the Company for cancellation and because of this, these shares are not included in the basic EPS calculation.

Severance expenses for continuing operations for the years ended December 31, 2012 and 2011 amounted to $19,216 and $249,010, respectively.

r. Advertising costs:

The Company records advertising costs as incurred. Advertising expense for the years ended December 31, 2012 and 2011 was approximately $155,887 and $166,701, respectively.

s. New accounting pronouncements:

Effective January 1, 2011, the Company adopted ASU 2009-13, "Revenue Recognition (Accounting Standards Codification ASC 605 – Multiple-Deliverable Revenue Arrangements") and ASU 2009-14, "Software ASC 985 – Certain Revenue Arrangements That Include Software Elements." ASU 2009-13 modifies the requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. ASU 2009-13 eliminates the requirement that all undelivered elements must have either: i) VSOE or ii) third-party evidence ("TPE"), before an entity can recognize the portion of an overall arrangement consideration that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities are required to estimate the selling prices of those elements. Overall arrangement consideration is allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. The residual method of allocating arrangement consideration has been eliminated. ASU 2009-14 modifies the software revenue recognition guidance to exclude from its scope tangible products that contain both software and non-software components that function together to deliver a product's essential functionality. Additionally, ASU 2009-14 provides guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software that is not essential to the product's functionality. ASU 2009-14 requires the same expanded disclosures that are included within ASU 2009-13. The impact of adoption did not have a significant impact on the Company's consolidated financial statements.

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NOTE 2:– SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (Topic 220) — Presentation of Comprehensive Income.” ASU 2011-05 eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders’ equity and requires that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company adopted the disclosure standard in January 2012.

In July 2012, the FASB issued ASU 2012-02 “Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment” (“ASU 2012-02”). ASU 2012-02 permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. Under the amendments in ASU 2012-02, an entity is not required to calculate the fair value of an indefinite-lived intangible asset unless it determines that it is more likely than not that the fair value of the asset is less than its carrying amount. An entity also will have the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. ASU 2012-02 is effective for interim and annual indefinite-lived intangible asset impairment tests performed for fiscal years beginning on or after September 15, 2012, with early adoption permitted. The Company’s adoption of ASU 2012-02 is not expected to have a material impact on its consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU is intended to improve the reporting of reclassifications out of accumulated other comprehensive income. The ASU requires an entity to report, either on the face of the statement where net income is presented or in the notes to the financial statements, the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in their entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments in this ASU apply to all entities that issue financial statements that are presented in conformity with U.S. GAAP and that report items of other comprehensive income. For public entities, the amendments in this ASU are effective prospectively for reporting periods beginning after December 15, 2012. The impact of adoption of this ASU by the Company is not expected to be material.

No other new accounting pronouncements issued or effective during 2012 have had or are expected to have a significant impact on the Company’s consolidated financial statements.

t. Share repurchase:

In February 2009, the Company’s Board of Directors authorized the repurchase in the open market or in privately negotiated transactions of up to $1,000,000 of the Company’s common stock. Through December 31, 2012, the Company repurchased 638,611 shares for a total of $869,931. The repurchase program, which expires on August 13, 2013, is subject to management’s discretion.

u. Reclassification:

Prior period amounts are reclassified, when necessary, to conform to the current period presentation.

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NOTE 3:– RESTRICTED COLLATERAL DEPOSITS

The following is a summary of restricted collateral deposits as of December 31, 2012 and 2011:

	December 31,	
	2012	2011
Deposits in connection with Epsilor projects	$ 40,164	$ 39,239
Deposits in connection with FAAC projects	146,142	1,640,370
Total restricted collateral deposits	$ 186,306	$ 1,679,609

NOTE 4:– OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

The following is a summary of other accounts receivable and prepaid expenses as of December 31, 2012 and 2011:

	December 31,	
	2012	2011
Government authorities	$ 101,509	$ 405,961
Employees	184,423	131,764
Prepaid expenses	552,568	746,331
Other	340,280	169,096
Total	$ 1,178,780	$ 1,453,152

NOTE 5:– INVENTORIES

	December 31,	
	2012	2011
Raw and packaging materials	$ 7,455,426	$ 7,688,821
Work in progress	363,415	1,025,030
Finished products	2,214,684	789,320
Total	$ 10,033,525	$ 9,503,171

NOTE 6:– PROPERTY AND EQUIPMENT, NET

a. Composition of property and equipment is as follows:

	December 31,	
	2012	2011
Cost:		
Computers and related equipment	$ 2,290,850	$ 2,247,918
Motor vehicles	492,584	443,483
Office furniture and equipment	1,068,526	1,229,241
Machinery, equipment and installations	5,755,750	5,193,498
Buildings	1,376,036	1,350,820
Land	300,000	300,000
Leasehold improvements	1,107,649	1,030,546

Demo inventory	1,617,416	1,605,494
	$ 14,008,811	$ 13,401,000

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NOTE 6:– PROPERTY AND EQUIPMENT, NET (Cont.)

	December 31, 2012	December 31, 2011
Accumulated depreciation:		
Computers and related equipment	$ 2,102,237	$ 2,015,704
Motor vehicles	186,224	119,699
Office furniture and equipment	956,471	1,030,360
Machinery, equipment and installations	4,119,078	3,645,155
Buildings	82,103	20,257
Leasehold improvements	828,920	761,429
Demo inventory	1,269,198	1,177,389
	9,544,231	8,769,993
Property and equipment, net	$ 4,464,580	$ 4,631,007

b. Depreciation expense amounted to $1,087,178 and $1,103,943 for the years ended December 31, 2012 and 2011, respectively.

As for liens, see Note 10.d.

NOTE 7:– GOODWILL AND OTHER INTANGIBLE ASSETS, NET

a. Goodwill

The Company allocates goodwill acquired in a business combination to the appropriate reporting unit as of the acquisition date. Currently, the Company's reporting units are also its reportable segments and the associated goodwill was determined when the specific businesses in the reportable segments were purchased.

A summary of the goodwill by business segment is as follows:

	December 31, 2011	Additions	Adjustments (currency)	December 31, 2012
Training and Simulation Division	$ 24,435,641	$ –	$ –	$ 24,435,641
Battery and Power Systems Division	5,985,557	–	141,100	6,126,657
Total	$ 30,421,198	$ –	$ 141,100	$ 30,562,298

b. Other intangible assets:

	Useful life	December 31, 2012 Cost	December 31, 2012 Net book value	December 31, 2011 Cost	December 31, 2011 Net book value
Technology	4-8 years	$ 6,788,000	$ 189,429	$ 6,788,000	$ 284,143
Capitalized software costs	1-3 years	3,690,416	491,433	3,355,716	616,819
Trademarks	10 years	28,000	14,000	28,000	16,800
Backlog/customer relationship	1-10 years	744,000	31,000	744,000	37,200
Customer list	2-10 years	6,773,645	621,740	6,773,645	1,243,480
		18,024,061	$ 1,347,602	17,689,361	$ 2,198,442
Exchange rate differences		91,671		155,663	
Less - accumulated amortization		(16,676,459)		(15,490,920)	

Amortized cost	1,439,273	2,354,104
Trademarks (indefinite lives)	799,000	799,000
Net book value	$ 2,238,273	$ 3,153,104

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NOTE 7:– GOODWILL AND OTHER INTANGIBLE ASSETS, NET (Cont.)

Amortization expense amounted to $1,185,539 and $1,905,097 for the years ended December 31, 2012 and 2011, respectively, including amortization of capitalized software costs of $460,085 and $603,393, respectively.

c. Estimated amortization expenses for the years shown is as follows:

Year ending December 31,		
2013	$	1,089,442
2014		231,160
2015		27,000
2016		–
Total	$	1,347,602

Goodwill and other intangible assets are adjusted on a quarterly basis for any change due to currency fluctuations and any variation is included in the accumulated other comprehensive income on the Balance Sheet.

NOTE 8:– SHORT-TERM BANK CREDIT AND LOANS

The Company has $10,723,000 authorized in credit lines from certain banks, of which $723,000 is denominated in NIS ($168,000 was outstanding as of December 31, 2012) and carries various interest rates up to 8.2%. The primary line of $10,000,000, subject to borrowing base limitations and outstanding letters of credit, is denominated in U.S. dollars. This line carries an interest rate of 30 day LIBOR plus 375 basis points which was 3.96% as of December 31, 2012. As of December 31, 2012, $9,620,000 was borrowed under the Company’s primary line. Approximately $380,000 of credit on the primary line was available at December 31, 2012. The Company’s primary credit facility and the Company’s building mortgage with the same bank contains certain covenants, including limiting the Company’s distributions to Arotech affiliates to $4,000,000, and meeting a Fixed Charge Coverage Ratio of not less than 1.1 to 1.0. The Company was in compliance with both of these covenants at December 31, 2012. Additionally, the loan is collateralized by the assets of Arotech and its subsidiaries.

In February 2013, to support the Company’s growth, our primary bank increased the Company’s credit line by 50%, from $10,000,000 to $15,000,000, and the expiration of the credit line was extended to May 31, 2015. The new credit agreement carries an interest rate of 30 day LIBOR plus 375 basis points and an unused line of credit fee of 0.35%. The new credit agreement also contains certain covenants, which are measured on a rolling twelve-month basis, limiting the Maximum Increase in Net Advance to Affiliates to less than 90% of EBITDA and meeting a Fixed Charge Coverage Ratio of not less than 1.1 to 1.0. It is expected that the Company will be in compliance with these covenants during 2013.

Previously, the Company had a $10.0 million credit facility with another bank that expired April 30, 2012 and a building mortgage with the same bank which contained certain covenants, including limiting the Company’s distributions to Arotech affiliates, limiting the Company’s operating cash flow to total fixed charges to a ratio of 1.25 to 1.00 and limiting the Company’s total liabilities to adjusted tangible net worth to a ratio of 2.50 to 1.00.

NOTE 9:– OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following is a summary of other accounts payable and accrued expenses as of December 31, 2012 and 2011:

	December 31,			
	2012		**2011**	
Employees and payroll accruals	$	3,003,048	$	2,083,209
Accrued vacation pay		811,910		758,093

Accrued expenses	369,800	530,079
Government authorities	68,152	262,752
Total	$ 4,252,910	$ 3,634,133

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NOTE 10:– COMMITMENTS AND CONTINGENT LIABILITIES

a. Royalty commitments:

Under Epsilor-EFL's research and development agreements with the Office of the Chief Scientist ("OCS"), and pursuant to applicable laws, Epsilor-EFL is required to pay royalties at the rate of 3%-3.5% of net sales of products developed with funds provided by the OCS, up to an amount equal to 100% of research and development grants received from the OCS. (Amounts due in respect of projects approved after 1999 also bear interest at the LIBOR rate.) Epsilor-EFL is obligated to pay royalties only on sales of products in respect of which OCS participated in their development. Should the project fail, Epsilor-EFL will not be obligated to pay any royalties or refund the grants.

Royalties paid or accrued for the years ended December 31, 2012 and 2011 to the OCS amounted to zero and $1,946, respectively.

b. Lease commitments:

The Company rents its facilities under various operating lease agreements, which expire on various dates through 2018. The minimum rental payments under non-cancelable operating leases are as follows:

Minimum rental payments	December 31
2013	$ 860,306
2014	441,333
2015	362,624
2016	366,959
2017	371,294
Thereafter	98,266
Total	$ 2,500,782

Total rent expenses for the years ended December 31, 2012 and 2011 were $924,864 and $901,216, respectively.

The existing capital leases have terms from 3 to 5 years and are for equipment purchases. The equipment is classified under machinery and equipment in property and equipment.

The table below details the original value, accumulated depreciation and net book value of the assets included.

Leased Assets	December 31,	
	2012	**2011**
Equipment	$ 77,654	$ 77,654
Less: Accumulated depreciation	(77,654)	(52,164)
Net book value	$ –	$ 25,490

There are no remaining capital lease obligations.

c. Guarantees:

The Company obtained bank guarantees in the amount of $427,783 in connection with (i) obligations of one of the Company's subsidiaries to the Israeli customs authorities, and (ii) the obligation of one of the Company's subsidiaries to secure the return of products loaned to the Company from one of its customers.

d. Liens:

As security for compliance with the terms related to the investment grants from the State of Israel, Epsilor-EFL has registered floating liens (that is, liens that apply not only to assets owned at the time but also to after-acquired assets) on all of its assets, in favor of the State of Israel.

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AROTECH CORPORATION AND SUBSIDIARIES
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NOTE 10:– COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

The Company has $723,000 in credit liens collateralized by the assets of the Company and guaranteed by the Company.

Epsilor-EFL has recorded a lien on all of its assets in favor of its banks to secure lines of credit. In addition Epsilor-EFL has a specific pledge on assets in respect of which government guaranteed loans were given.

e. Litigation and other claims:

As of the date of this filing, there were no material pending legal proceedings against the Company.

NOTE 11:– LONG TERM DEBT

a. Subordinated convertible notes due August 15, 2011:

In August 2008, the Company issued $5,000,000 in 10% subordinated convertible notes due August 15, 2011 (the “Notes”). The Notes were convertible at the option of the holders at a fixed conversion price of $2.24. The principal amount of the Notes was payable over a period of three years, with the principal amount being amortized in eleven payments payable at the Company’s option in cash and/or stock, by requiring the holders to convert a portion of their Notes into shares of the Company’s common stock, provided certain conditions were met. The failure to meet such conditions could have made the Company unable to pay its Notes, causing it to default.

As of December 31, 2011, the Notes were paid in full and all associated warrants had expired.

b. Mortgage Note, Ann Arbor, Michigan:

In July 2011, the Simulation and Training Division purchased a building for $1,500,000 containing both office and lab space. The building was financed with a $1,100,000 mortgage loan that was obtained through the Company’s primary bank. The note requires a payment (principal and interest) of approximately $8,000 per month at an interest rate of LIBOR plus 375 basis points per annum with a balloon payment due in May 2017. In December 2012, FAAC leased surplus space of the purchased building to a non-profit organization for $6,300 per month as office space for a term of 10 years with an option to terminate the lease with a one year prior notice in May 2018. (See Note 8 for the relevant covenants relating to the mortgage.)

c. Mortgage Note, Auburn, Alabama:

In March 2007, the Company purchased space for the now-discontinued Armor Division in Auburn, Alabama for approximately $1,100,000 pursuant to a seller-financed secured purchase money mortgage. Half the mortgage is payable over ten years in equal monthly installments based on a 20-year amortization of the full principal amount, and the remaining half is payable at the end of ten years in a balloon payment. The note requires a payment (principal and interest) of approximately $9,300 per month at an interest rate of 8.0% per annum. The Company is currently leasing this building to the buyer of the Armor Division for approximately $9,300 per month under a three year lease.

d. Term loans, Israel:

In February 2012, the Company negotiated a short term loan with a local bank in Israel. The funds were released to the Company in three tranches of $250,000 each in February, March and April 2012. The interest rate for this loan is prime plus 1.2% and will be repaid in three tranches in February, March and April 2013. The balance of this loan as of December, 2012 was $811,834. The Company has additional long term debt outstanding of approximately $2,000 for a vehicle loan. This amount is payable in 2013.

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NOTE 11:– LONG TERM DEBT (Cont.)

e. Minimum loan payments:

Minimum loan payments	Continuing	Discontinued
2013	$ 888,839	$ 59,287
2014	55,000	40,382
2015	55,000	43,734
2016	55,000	47,356
2017	55,000	781,341
Thereafter	772,917	–
Total	$ 1,881,756	$ 972,100

NOTE 12:– COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Billings in excess of costs generated under the percentage-of-completion method are recorded as deferred revenues until the revenue recognition criteria are met. Deferred revenues include unearned amounts received under maintenance and support services, customer deposits of $16,202 and $55,201 for 2012 and 2011 respectively, and billing in excess of costs and estimated earnings on uncompleted contracts.

The following is a summary of the costs and estimated earnings on uncompleted contracts as of December 31, 2012 and 2011. Open contracts are expected to be completed in the following year:

	Year ended December 31,	
	2012	**2011**
Costs incurred on uncompleted contracts	$ 111,128,026	$ 82,310,317
Estimated earnings	18,649,855	18,064,955
	129,777,881	100,375,272
Less billings to date	(117,503,299)	(96,059,555)
Total	$ 12,274,582	$ 4,315,717
Unbilled receivables	$ 13,374,004	$ 5,722,781
Billings in excess of costs (included in deferred revenues)	(1,099,422)	(1,407,064)
Total	$ 12,274,582	$ 4,315,717

NOTE 13:– STOCKHOLDERS' EQUITY

a. Stockholders' rights:

The Company's shares confer upon the holders the right to receive notice to participate and vote in the general meetings of the Company and right to receive dividends, if and when declared.

b. Warrants:

As part of a securities purchase agreement entered into in August 2008, the Company issued to the purchasers of its 10% senior convertible notes due August 15, 2011, warrants to purchase an aggregate of 558,036 shares of common stock at any time prior to August 15, 2011 at a price of $2.24 per share. Due to certain exercise price reset provisions, the warrants were accounted for as liabilities at fair value with changes in fair value reflected as financial income or expense.

The Notes were fully paid and the warrants expired unexercised on August 15, 2011.

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AROTECH CORPORATION AND SUBSIDIARIES
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NOTE 13:– STOCKHOLDERS' EQUITY (Cont.)

c. The Company has adopted the following stock award plans, whereby options may be granted for purchase of shares of the Company's common stock and where restricted shares and restricted stock units may be granted and approved by the Board of Directors. Each restricted stock unit is equal to one share of Company stock and is redeemable only for stock. Under the terms of the award plans, the Board of Directors or the designated committee grants options, restricted stock and restricted stock units. The Board of Directors or the designated committee also determines the vesting period and the exercise terms:

1. 2007 Non-Employee Director Equity Compensation Plan – 750,000 shares reserved for issuance, of which 400,307 were available for future grants to outside directors as of December 31, 2012.

2. 2009 Equity Incentive Plan – 5,000,000 shares reserved for issuance, of which 3,265,555 were available for future grants to employees and consultants as of December 31, 2012.

3. Under these plans, options generally expire no later than 5-10 years from the date of grant. Each option can be exercised to purchase one share, conferring the same rights as the other common shares. Options that are cancelled or forfeited before expiration become available for future grants. The options generally vest over a three-year period (33.3% per annum) and restricted shares and restricted stock units also generally vest after three years or pursuant to defined performance criteria; in the event that employment is terminated within that period, unvested restricted shares and restricted stock units generally revert back to the Company.

4. Deferred stock compensation is amortized and recorded as compensation expense ratably over the vesting period of the option or the restriction period of the restricted shares and restricted stock units. The stock compensation expense that has been charged in the consolidated statements of operations in respect of options, restricted shares and restricted stock units to employees and directors in 2012 and 2011 was $447,680 and $408,492, respectively. The calculated intrinsic value of vested and unvested options for 2012 and 2011 was zero.

5. A summary of the status of the Company's plans and other share options, restricted shares and restricted stock units granted as of December 31, 2012 and 2011, and changes during the years ended on those dates, is presented below:

Stock Options:

	2012		2011	
	Amount	**Weighted average exercise price**	**Amount**	**Weighted average exercise price**
Options outstanding at beginning of year	64,953	$ 7.80	186,714	$ 6.36
Changes during year:				
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	(52,725)	8.34	(121,761)	5.60
Options outstanding at end of year	12,228	$ 5.46	64,953	$ 7.80
Options vested at end of year	12,228	$ 5.46	64,953	$ 7.80

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NOTE 13:– STOCKHOLDERS' EQUITY (Cont.)

Restricted Shares and Restricted Stock Units:

	2012			2011		
	Shares		Weighted average fair value at grant date	Shares		Weighted average fair value at grant date
Non-vested at the beginning of the year	636,488	$	1.43	406,813	$	1.60
Changes during year:						
Restricted stock granted	517,582	$	1.17	414,284	$	1.32
Restricted units granted	60,000	$	1.67	120,000	$	1.67
Vested	(310,497)	$	1.29	(304,609)	$	1.47
Forfeited	(59,303)	$	1.49	–	$	–
Non-vested at the end of the year	844,270	$	1.30	636,488	$	1.43
Restricted shares vested at end of year	2,353,996	$	1.97	2,043,499	$	2.07

6. The remaining total compensation cost related to non-vested restricted share and restricted stock unit awards not yet recognized (before applying a forfeiture rate) in the income statement as of December 31, 2012 was $327,750. The weighted average period over which this compensation cost is expected to be recognized is approximately two years.

7. On January 1, 2009, the Company adopted FASB ASC 260-45-28, Share-Based Payment Arrangements, which classifies unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities and requires them to be included in the computation of diluted earnings per share using the two class method. The Company has determined that the unvested restricted stock issued to our employees and directors are "participating securities" and as such, are included, net of estimated forfeitures, in the total shares used to calculate the Company's diluted loss per share unless a net loss is reported, in which situation unvested stock awards are excluded from the number of shares outstanding for both basic and diluted earnings per share calculations..

NOTE 14:– INCOME TAXES

a. General:

As of December 31, 2012, Arotech has net operating loss carryforwards for U.S. federal income tax purposes of $43,300,000, which are available to offset future taxable income, if any, expiring in 2020 through 2032. Utilization of U.S. net operating losses is subject to substantial annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

At December 31, 2012, the Company had net deferred tax assets before valuation allowance of $43,942,000. The deferred tax assets are primarily composed of federal, state and foreign tax net operating loss ("NOL") carryforwards. Due to uncertainties surrounding the Company's ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset its net deferred tax asset. Additionally, the future utilization of the Company's NOL carryforwards to offset future taxable income is subject to a substantial annual limitation as a result of IRC Section 382 changes that have occurred. Any carryforwards that will expire prior to utilization as a result of such limitations will be removed from deferred tax assets with a corresponding reduction of the valuation allowance.

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In U.S. dollars

NOTE 14:– INCOME TAXES (Cont.)

The Company has indefinite-lived intangible assets consisting of trademarks and goodwill. These indefinitely-lived intangible assets are not amortized for financial reporting purposes. However, these assets are tax deductible, and therefore amortized over 15 years for tax purposes. As such, deferred income tax expense and a deferred tax liability arise as a result of the tax-deductibility of these indefinitely-lived intangible assets. The resulting deferred tax liability, which is expected to continue to increase over time, will have an indefinite life, resulting in what is referred to as a "naked tax credit." This deferred tax liability could remain on the Company's balance sheet indefinitely unless there is an impairment of the related assets (for financial reporting purposes), or the business to which those assets relate were to be disposed of.

Due to the fact that the aforementioned deferred tax liability could have an indefinite life, it is not netted against the Company's deferred tax assets when determining the required valuation allowance. Doing so would result in the understatement of the valuation allowance and related deferred income tax expense.

The Company has also reevaluated its income tax positions under FASB ASC 740-10 as of December 31, 2012 and the Company believes that it has no material uncertain tax positions and therefore has no uncertain tax position reserves and does not expect to provide for any such reserves. The Company does not believe that the unrecognized tax benefits will change within 12 months of this reporting date. It is the Company's policy that any assessed penalties and interest on uncertain tax positions would be charged to income tax expense.

The Company does not provide for U.S. federal income taxes on the undistributed earnings of its foreign subsidiaries because such earnings are re-invested and, in the opinion of management, will continue to be re-invested indefinitely.

The Company files income tax returns, including returns for its subsidiaries, with federal, state, local and foreign jurisdictions. The Company is no longer subject to IRS examination for periods prior to 2009, although carryforward losses that were generated prior to 2010 may still be adjusted by the IRS if they are used in a future period. Additionally, the Company is no longer subject to examination in Israel for periods prior to 2007.

The Company files consolidated tax returns for its U.S. entities.

b. Israeli subsidiary (Epsilor-EFL):

Effective January 1, 2011 Epsilor-EFL's tax rate was 10% in 2011 and 2012 and will be reduced to 6% by 2015. In addition, dividends paid from the profits of Epsilor-EFL are subject to tax at the rate of 15% in the hands of their recipient and tax exempt on dividends paid to Israeli company. As of December 31, 2012, there are no tax exempt profits earned by Epsilor–EFL by Israel law that will be distributed as a dividend and accordingly no deferred tax liability was recorded as of December 31, 2012. Furthermore, management has indicated that it has no intention of declaring any dividend.

c. Merger of Epsilor and EFL:

On June 25, 2009, two of the Company's Israeli subsidiaries, Epsilor and EFL, entered into a merger agreement pursuant to which EFL merged all of its assets and liabilities into Epsilor, with Epsilor the survivor of the merger (the "Merged Company").

Through the merger date, EFL accumulated certain tax losses (the "EFL Loss"). 20% of the EFL Loss was cancelled and is not available to offset any future income. The remaining amount of the EFL Loss (the "Remaining Loss") was absorbed into the Merged Company and is available to offset the Merged Company's income after July 1, 2009; provided that for the 16 tax years following the merger, losses will not be available to offset the Merged Company's income in excess of the lesser of (i) 6.25% of the original amount of the Remaining Loss, or (ii) 50% of the Merged Company's total taxable income in that year prior to giving effect to the application of any of the EFL Loss.

As of December 31, 2012, the Merged Company has tax loss carryforwards, generated by EFL, of $84,000,000, which is available indefinitely to offset future taxable income.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 14:– INCOME TAXES (Cont.)

d. Consolidated deferred income taxes:

Deferred income taxes reflect tax credit carryforwards and the net tax effects of temporary differences between the carrying amounts of asse and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred ta assets are as follows:

	December 31, 2012	December 31, 2011
U.S. operating loss carryforward	$ 17,286,287	$ 16,420,226
Foreign operating loss carryforward	21,366,068	20,938,603
Total operating loss carryforward	38,652,355	37,358,829
Temporary differences:		
Compensation and benefits	2,026,176	1,895,519
Warranty reserves	1,005,118	1,033,796
Foreign temporary differences	797,247	948,720
All other temporary differences	1,461,543	2,443,919
Total temporary differences	5,290,084	6,321,954
Deferred tax asset before valuation allowance	43,942,439	43,680,783
Valuation allowance	(43,942,439)	(43,680,783)
Total deferred tax asset	$ –	$ –
Deferred tax liability	$ 4,920,021	$ 4,321,521

The Company provided valuation allowances for the deferred tax assets resulting from tax loss carryforwards and other temporary differences. Management currently believes that it is more likely than not that the deferred tax assets related to the operating loss carryforwards and other temporary differences will not be realized. The change in the valuation allowance during 2012 was $261,000.

e. Loss from continuing operations before taxes on income are as follows:

	Year ended December 31 2012	Year ended December 31 2011
Domestic	$ 260,481	$ (1,965,158)
Foreign	(1,660,719)	(1,389,392)
	$ (1,400,238)	$ (3,354,550)

f. Taxes on income were comprised of the following:

	Year ended December 31 2012	Year ended December 31 2011
Current federal taxes	$ –	$ –
Current state and local taxes	29,656	(69,734)
Deferred taxes	598,500	1,678,345

Expense	$ 628,156	$ 1,608,611

Domestic	$ 628,156	$ 959,027
Foreign	–	649,584
Expense	$ 628,156	$ 1,608,611

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 14:– INCOME TAXES (Cont.)

g. A reconciliation between the theoretical tax expense, assuming all income is taxed at the U.S. federal statutory tax rate applicable to income of the Company and the actual tax expense as reported in the Statements of Operations is as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Loss from continuing operations before taxes	$ (1,400,238)	$ (3,354,550)
Statutory tax rate	34%	34%
Theoretical income tax on the above amount at the U.S. statutory tax rate	$ (476,081)	$ (1,140,547)
Deferred taxes for which valuation allowance was provided	860,390	2,685,812
Non-deductible credits	64,726	8,035
State taxes, net of federal benefit	29,656	(69,734)
Foreign income in tax rates other than U.S. rate	149,465	125,045
Actual tax expense	$ 628,156	$ 1,608,611

NOTE 15:– SELECTED STATEMENTS OF OPERATIONS DATA

Financial income (expense), net:

	Year ended December 31, 2012	Year ended December 31, 2011
Financial expenses:		
Interest, bank charges and fees	$ (588,678)	$ (350,330)
Debt discount amortization	–	(39,351)
Foreign currency transaction differences	(9,701)	(279,190)
Other	(15,668)	(4,473)
Total financial expenses	(614,047)	(673,344)
Financial income:		
Interest	–	114,925
Foreign currency transaction differences	66,061	208
Change in derivative values	–	226,954
Other	–	251
Total financial income	66,061	342,338
Total financial income (expense), net	$ (547,986)	$ (331,006)

NOTE 16:– SEGMENT INFORMATION

a. General:

The Company operates in two continuing business segments (see Note 1.a. for a brief description of the Company’s business).

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 16:– SEGMENT INFORMATION (Cont.)

The Company’s reportable operating segments have been determined in accordance with the Company’s internal management structure, which is organized based on operating activities. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on two primary factors: the segment’s operating income and the segment’s contribution to the Company’s future strategic growth.

b. The following is information about reported segment gains, losses and assets:

	Training and Simulation Division	Battery and Power Systems Division	Corporate Expenses	Discontinued operations	Total Company
2012					
Revenues from outside customers	$ 59,270,768	$ 20,779,666	$ –	$ –	$ 80,050,434
Depreciation and amortization expenses [1]	(1,105,958)	(1,118,104)	(48,655)	–	(2,272,717)
Direct expenses [2]	(53,055,151)	(19,974,339)	(5,600,479)	–	(78,629,969)
Segment net income (loss)	5,109,659	(312,777)	(5,649,134)	–	(852,252)
Financial expenses	(43,221)	(7,639)	(497,126)	–	(547,986)
Income tax expense (benefit)	(7,688)	–	635,844	–	628,156
Net income (loss) – continuing operations	5,074,126	(320,416)	(6,782,104)	–	(2,028,394)
Net loss – discontinued operations	–	–	–	(988,283)	(988,283)
Net income (loss)	$ 5,074,126	$ (320,416)	$ (6,782,104)	$ (988,283)	$ (3,016,677)
Segment assets	$ 51,302,000	$ 26,013,955	$ 174,791	$ 389,272	$ 77,880,018
Additions to long-lived assets	$ 550,634	$ 734,198	$ –	$ –	$ 1,284,832
2011					
Revenues from outside customers	$ 42,881,573	$ 19,254,005	$ –	$ –	$ 62,135,578
Depreciation and amortization expenses [1]	(1,845,582)	(1,094,930)	(68,528)	–	(3,009,040)
Direct expenses [2]	(38,292,715)	(18,297,385)	(5,559,982)	–	(62,150,082)
Segment net income (loss)	2,743,276	(138,310)	(5,628,510)	–	(3,023,544)
Financial income (expense)	(47,112)	(209,764)	(74,130)	–	(331,006)
Income tax expense (benefit)	(69,734)	646,824	1,031,521	–	1,608,611
Net income (loss) – continuing operations	2,765,898	(994,898)	(6,734,161)	–	(4,963,161)
Net loss – discontinued operations	–	–	–	(6,563,844)	(6,563,844)
Net income (loss)	$ 2,765,898	$ (994,898)	$ (6,734,161)	$ (6,563,844)	$ (11,527,005)
Segment assets	$ 48,501,634	$ 25,335,086	$ 548,717	$ 6,716,508	$ 81,101,945
Additions to long-lived assets	$ 2,124,953	$ 911,382	$ 3,345	$ 97,558	$ 3,137,238

(1) Includes depreciation of property and equipment and amortization expenses of intangible assets.
(2) Including, *inter alia*, sales and marketing, general and administrative, research and development and other income.

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AROTECH CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In U.S. dollars

NOTE 16:– SEGMENT INFORMATION (Cont.)

c. Summary information about geographic areas:

The following presents total revenues according to the locations of the Company's end customers and long-lived assets as of and for the years ended December 31, 2012 and 2011:

	2012		2011	
	Total revenues	Long-lived assets	Total revenues	Long-lived assets
U.S.A.	$ 63,751,882	$ 28,879,572	$ 45,517,776	$ 29,543,962
Israel	7,485,034	8,385,579	8,585,357	8,661,347
Germany	1,517,200	–	318,892	–
Taiwan	1,349,420	–	1,915,361	–
Korea	1,198,663	–	–	–
Canada	1,167,656	–	2,150,419	–
Hong Kong	1,098,346	–	–	–
India	605,966	–	8,630	–
Mexico	283,584	–	150,634	–
Ecuador	139,845	–	–	–
Thailand	137,970	–	72,363	–
U.A.E.	109,604	–	386,241	–
China	98,832	–	307,120	–
New Zealand	–	–	731,151	–
Kuwait	–	–	539,118	–
England	–	–	228,669	–
Slovenia	–	–	121,475	–
Other	1,106,432	–	1,102,372	–
	$ 80,050,434	$ 37,265,151	$ 62,135,578	$ 38,205,309

d. Revenues from major customers (as a percentage of consolidated revenues):

Other than for sales to various branches of the United States Military, which accounted for 54% and 46% of consolidated continuing revenues for 2012 and 2011, respectively, no single customer accounted for more than 10% of revenues for either year.

e. Revenues from major products:

	Year ended December 31,	
	2012	2011
Water activated batteries	$ 3,786,946	$ 3,614,876
Batteries and chargers	16,992,720	15,639,129
Simulators	59,270,768	42,881,573
Total	$ 80,050,434	$ 62,135,578

NOTE 17:– WARRANTY

The following is a summary of the deferred warranty revenue included in total deferred revenue as of December 31, 2012 and 2011:

	Year ended December 31,	
	2012	2011
Balance at beginning of period	$ 2,557,160	$ 3,236,122
Deferred revenue	2,396,807	1,960,540
Revenue recognized	(2,271,505)	(2,639,502)
Balance at end of period	$ 2,682,462	$ 2,557,160

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In U.S. dollars

FINANCIAL STATEMENT SCHEDULE

Arotech Corporation and Subsidiaries

Schedule II – Valuation and Qualifying Accounts

For the Years Ended December 31, 2012 and 2011

Description	Balance at beginning of period	Reductions	Additions	Balance at end of period
Year ended December 31, 2012				
Allowance for doubtful accounts	$ –	$ –	$ –	$ –
Valuation allowance for deferred taxes*	43,681,000	–	261,000	43,942,000
Year ended December 31, 2011				
Allowance for doubtful accounts	$ –	$ –	$ –	$ –
Allowance for settlements	1,553,000	(1,553,000)	–	–
Valuation allowance for deferred taxes*	36,629,000	–	7,052,000	43,681,000

*The 2012 and 2011 valuation allowance includes an adjustment to the prior year provision calculation due to changes recognized in the preparation of the actual returns.

CODE OF CONDUCT

FOR

OFFICERS, DIRECTORS AND EMPLOYEES

OF

AROTECH CORPORATION AND ITS SUBSIDIARIES

I. Purpose

This Code of Conduct of Arotech Corporation and its subsidiaries (collectively, the "Company") has been prepared to help all officers, directors and employees understand and comply with our policies and procedures. Overall, the purpose of our Code of Conduct is to deter wrongdoing and promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in reports and documents that we file with, or submit to, the SEC and in other public communications made by us;
- compliance with applicable governmental laws, rules and regulations;
- prompt internal reporting of code violations to an appropriate person or persons identified in this Code of Conduct; and
- accountability for adherence to the Code of Conduct.

II. Policy

The Company is committed to the highest ethical standards and to compliance with all applicable laws and regulations. It is the obligation of our officers, directors and employees to:

- Conduct themselves honestly and ethically;
- Avoid conflicts of interest, and disclose to their immediate supervisors (or, if they are officers or directors, to the Chief Executive Officer of the Company) any relationship that appears to constitute a conflict of interest; and
- Comply with applicable governmental laws, rules and regulations.

III. Duty to Report Violations

You are responsible for reporting in good faith to the Company any circumstances that you believe may constitute a violation of this Code of Conduct. You should report suspected violations to your immediate supervisor or, if you are an officer or director of the Company or any of its subsidiaries, to the Chief Executive Officer of the Company. Supervisors receiving such reports are required to disclose such reports to the Chief Executive Officer of the Company. The Company will investigate these matters. There will be no action taken against you for good

faith reporting of suspected policy violations; however, you will not be protected from possible disciplinary action if you report in bad faith or have otherwise engaged in misconduct.

The Chief Executive Officer or the Chief Executive Officer's designee will investigate all asserted violations of this Code of Conduct relating to conduct by any employee who is not an officer or director of the Company. The Board of Directors of the Company will investigate all asserted violations of this Code of Conduct relating to conduct by any officer or director of the Company. Waivers of this Code of Conduct with respect to conduct by any employee also must be approved by the Chief Executive Officer or the Chief Executive Officer's designee. Any waiver to be granted to an officer or director must be approved by the Company's Board of Directors or a committee of the Board of Directors.

IV. Ethical Business Practices

The Company requires that you maintain lawful and ethical business practices at all times. Examples of certain prohibited activities are set forth below. These examples are intended to highlight some prohibited practices, but they do not address every kind of prohibited practice.

1. Bribery. Use of Company funds or property for illegal, unethical or otherwise improper purposes, including bribes, kickbacks and payoffs, is prohibited.

2. Political Contributions and Activities. In the United States, federal and many state laws prohibit corporations from making direct political contributions to candidates. No employee may make any political contribution of any kind, on the federal, state, or local level, in the name of the Company, or use Company funds or materials for this purpose. You should not make political contributions based on a promise to be reimbursed by the Company.

3. Gifts and Entertainment. You and members of your family must not solicit or accept loans, fees, services, or monetary gifts of any kind from suppliers, customers or others dealing with the Company. To the extent permitted by law, you may accept unsolicited non-monetary gifts or entertainment which conform to customary business practices and are not of significant value. Should you accept such gifts or entertainment, you must not give the person or entity offering such gifts or entertainment any preferential treatment.

V. Conflicts of Interest and Outside Associations and Activities

You have a duty to avoid business, financial, or other relationships that might conflict with the Company's interests or impair or influence your ability to discharge your duties. There are potential conflicts of interest inherent in certain situations such as when:

1. You or a member of your family has a direct or indirect financial interest in, or obligation to, an actual or potential competitor, supplier, or customer. (This does not include small stock ownership in publicly traded companies).

2. You conduct business on behalf of the Company with a supplier or customer in which a relative of yours is a representative, officer or director.

3. You acquire real property, leaseholds, patents, or other property or rights in which the Company has, or you have reason to believe that the Company is likely to have, an interest.

VI. Confidential Information and Trading Stock in a Public Company

It is illegal and against Company policy for you to buy or sell Company stock when in possession of "inside information."

As a general matter, inside information is any material, nonpublic information concerning a company or its business. Information may be considered "material" if (1) it would likely be considered important to an investor in deciding whether to purchase or sell the Company's securities, or (2) would reasonably be expected to have an impact on the price of the Company's stock if the information were publicly released. For example, inside information might include information relating to proposed acquisitions, important financial data, major new contracts, research projects, the status of a product in the governmental approval process, or significant management changes.

Even after information is publicly released, it should still be considered nonpublic until a sufficient amount of time has passed for the information to become generally available to, and absorbed by, the investing public. While the amount of time that must pass for information to be considered public may vary depending on the circumstances, generally, information may be considered to be public 24 hours following its release to the investing public.

In addition, the Company maintains a "blackout" policy with respect to trading in the Company's stock, prohibiting trading or exercise of options from two weeks before the end of the fiscal quarter until 24 hours after the release of that quarter's financial results (except pursuant to a previously-issued limit order), and you are required to comply with such policy.

VII. Cooperating with Governmental Authorities.

It is the policy of the Company to cooperate with governmental investigations or inquiries. Accordingly, if you reasonably believe that a governmental investigation or inquiry is in progress, you should communicate that information immediately to your immediate supervisor, or, if you are an officer or director of the Company or any of its subsidiaries, to the Chief Executive Officer of the Company.

You should never:

a. Destroy or alter any Company documents in anticipation of a request for those documents from any governmental agency or judicial authority.

b. Make any false or misleading statements to any governmental investigator during an investigation.

c. Attempt to cause any other Company employee or any other person to fail to provide information to a governmental investigator, or to provide false or misleading information.

VIII. Company Disclosure Obligations.

As a public company, the Company is required to make disclosures about its activities and operations in quarterly reports filed shortly after the end of its first three fiscal quarters and in an annual report filed shortly after the end of its fiscal year. It is the policy of the Company to make full, fair, accurate, timely and understandable disclosure in reports and documents that it files with, or submits to, the SEC and in other public communications made by the Company. While the disclosure rules are complex, *essentially the Company is obligated to disclose anything that a reasonable investor would want to consider in deciding whether to purchase or sell the Company's stock*. If you are aware of an act or omission which you believe satisfies this standard and you do not believe that such act or omission has been disclosed by the Company, you should describe that information to your immediate supervisor, or if you are an officer or director of the Company or any of its subsidiaries, to the Chief Executive Officer of the Company.

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All information provided to immediate supervisors pursuant to this Code of Conduct is to be communicated by such immediate supervisor to the Chief Executive Officer of the Company or the Chief Executive Officer's designee.

Effect of this Code of Conduct. NOTHING PROVIDED FOR IN THIS CODE IS INTENDED TO CREATE A CONTRACT OF EMPLOYMENT FOR ANY INDIVIDUAL. Except as otherwise provided in a specific agreement of employment, employees may terminate their employment whenever they wish and for whatever reason, just as the Company may terminate an individual's employment at any time and for any reason.

Supplier Name:	Freedman Seating Company
Supplier Representative:	Steve Orzech Jr, Business Development Manager
System:	Passenger Seating Co
Date:	March 24, 2014

SECTION B
PART B TECHNICAL PROPOSAL AND STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

NOTE: The Authority reserves the right to audit compliance with respect to each of the required statements and certifications in the forms submitted by Offerors, including but not limited to the Domestic U.S. Content Certification, Domestic U.S. Content Worksheet, and Final Assembly of Production (Non-Pilot) Vehicles in Massachusetts.

Questions Concerning Eligibility

Provide short answers (and attach relevant documents) to the following questions and requests:

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.

2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.

3. Provide the names, title and telephone numbers of all officers.

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.

5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.

6. Have any of the business owners, shareholders, or officers every been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.

7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.

8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

10. Has the business or any of the business’s owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity.

12. Provide the business's current code of business ethics or equivalent.

Responses:

1. In the case CNR CRC would be awarded this contract and in the case Freedman Seating would be elected preferred supplier for seat, then Freedman Seating would be willing to apply for this certificate.
2. Freedman Seating is a privately help company with 100% ownership held by the Freedman family. Craig Freedman is the contact regarding this. He can be reached at (773) 524-2440 ext. 255.
3. Gerald Freedman, CEO (773) 524-2440 ext 231
   Craig Freedman, President (773) 524-2440 ext. 255
   Dan Cohen, Executive Vice President (773) 524-2440 ext 227
4. Freedman Seating has supplied seats for heavy duty transit buses for MBTA through several bus builders.
5. No
6. No
7. The company is involved in several product liability lawsuits in which the company rigorously defends itself. any awards against the company will be covered by insurance.
8. Ralph Weiner & Associates, LLC
   Attn: Gary Weiner
   720 Astor Lane
   Wheeling, IL 60090
   (847) 465-1212
   Policy: IL20130107087
9. Wells Fargo Bank, NA 230 West Monroe Street, Chicago, IL 60606
   Wertheimer Box Corporation, Contact: Maryanne, 7950 W. Joliet Road, McCook, IL 60525, (312) 829-4545
   Central Steel & Wire, Contact: Thomas Bruebach, 3000 W. 51st St, Chicago, IL 60680, (773) 471-3800
10. No
11. Freedman Seating is a privately help corporation and the financial information provided here is to be held in strict confidence.
12. FSC Purpose: FSC provides not just seats but seating solutions to the transportation markets. We lead the market by providing support to our customers from sales through installation and beyond. We provide quality products on-time, every-time, with excellent customer service, better than our competitors.
    FSC Values: At Freedman we value employees who show accountability and drive themselves with integrity, while enjoying their work with excellent ethics and collaborating for the better of themselves and the organization.

FREEDMAN SEATING COMPANY
SUMMARY BALANCE SHEET
YTD AS OF DECEMBER 30, 2013
(000's)

CONFIDENTIAL

Assets

		2013		2012		Change
Cash	$	4,958.1	$	4,433.0	$	525.1
Accounts Receivable		8,837.4		5,786.9		3,050.5
Other Receivables		203.6		251.3		(47.7)
Inventory		8,195.7		8,309.4		(113.7)
Other Current Assets		2,594.2		1,049.9		1,544.3
Total Current Assets	$	24,789.0	$	19,830.5	$	4,958.5
Net Fixed Assets		7,782.6		8,132.0		(349.4)
Other Long-Term Assets		6,897.9		7,160.1		(262.2)
Total Assets	$	39,469.5	$	35,122.6	$	4,346.9

Liabilities

Accounts Payable	$	3,841.8	$	3,625.9	$	215.9
Short Term Bank Loan		-		-		-
Accrued Expenses		2,112.0		1,475.4		636.6
Total Current Liabilites	$	5,953.8	$	5,101.3	$	852.5
Long Term Liabilities		16,143.5		15,841.9		301.6
Total Liabilities	$	22,097.3	$	20,943.2	$	1,154.1

Shareholders Equity

Shareholders Equity	$	10,964.8	$	11,262.5	$	(297.7)
Current Year Income		6,407.4		2,916.9		3,490.5
Total Shareholders Equity	$	17,372.2	$	14,179.4	$	3,192.8
Total Liabilities & Shareholders Equity	$	39,469.5	$	35,122.6	$	4,346.9

CONFIDENTIAL

FREEDMAN SEATING COMPANY
SUMMARY OF PROFIT & LOSS
YTD AS OF DECEMBER 30th
(000's)

	2013	%	2012	%	2011	%
Net Sales	$ 86,508.5	100.00%	$ 79,835.3	100.00%	$ 74,664.4	100.00%
Material Cost	41,856.2	48.38%	38,400.8	48.10%	36,193.1	48.47%
Total Labor	15,064.5	17.41%	14,711.3	18.43%	13,549.5	18.15%
Factory Overhead	11,035.1	12.76%	11,119.2	13.93%	10,270.1	13.76%
Cost of Sales	$ 67,955.8	78.55%	$ 64,231.3	80.45%	$ 60,012.7	80.38%
Gross Profit	$ 18,552.7	21.45%	$ 15,604.0	19.55%	$ 14,651.7	19.62%
Operating Expense	12,145.3	14.04%	12,687.1	15.89%	11,632.2	15.58%
Income From Business Operations	$ 6,407.4	7.41%	$ 2,916.9	3.65%	$ 3,019.5	4.04%
Interest Expense	309.2	0.36%	481.7	0.60%	462.6	0.62%
Depreciation & Amort Expense	617.5	0.71%	623.2	0.78%	941.5	1.26%
EBITDA	$ 7,334.1	8.48%	$ 4,021.8	5.04%	$ 4,423.6	5.92%

SECTIONB

PARTBTECHNICALPROPOSALANDSTATEMENTSA NDCERTIFICATIONSREGARDINGELIGIBILITY

QUALIFICATIONSANDCERTIFICATIONS

NOTE:TheAuthorityreservestherighttoauditcompliancewithrespecttoeachoftherequiredstatement sandcertificationsintheformssubmittedbyOfferors,includingbutnotlimitedtotheDomesticU.S.Cont entCertification,DomesticU.S.ContentWorksheet,andFinalAssemblyofProduction(Non-Pilot)VehiclesinMassachusetts.

QuestionsConcerningEligibility

Provideshortanswers(andattachrelevantdocuments)tothefollowingquestionsandrequests:

1. AttachrelevantCertificateofGoodStandingfromtheSecretaryofStateoftheComm onwealthofMassachusetts.

2. Providethenamesandtelephonenumbersofallbusinessowners,shareholdersifnotapublicly heldcorporation,and/ormembersifalimitedliabilitycompany.

Joe Lazzara	708-547-7000

3. Providethenames,titleandtelephonenumbersofallofficers.

Rick Komm	Dir. Of Sales and Marketing	708-547-7000
Tony Lazzara	VP of Operations	708-547-7000
Joe Nemecek	Controller	708-547-7000

4. Hasthebusinessoranownerorshareholderofthebusinesseverhadapriorcontractualrelationsh ipwiththeMBTA? Ifyes,pleasedescriberelationship.

   - Completed an insert refub program for MBTA between 2002 and 2003.
   - Manufactured brand new inserts for MBTA Green Line thru Breda.
   - Currently, thru Alstom, we are manufacturing entire seats for the 74 car Bi-level overhaul.

5. Hasthebusinessoranownerorshareholderofthebusinesseverbeenindefaultofanyobligationsu nderacontractwiththeMBTA,anyotherMassachusettsstateagencyoranyfederalagency?Ifyes, pleasedescribethecircumstances.Pleaseindicatewhetheritresultedinaterminationforcause.

   - None

6 . Haveanyofthebusinessowners,shareholders,orofficerseverybeenconvictedoffelonyviolationsofFederal,stateorlocallaws?Ifyes,pleasedescribe the circumstances.

- None

7 . Arethereanypendingrecentlawsuitsagainstthebusinessoranyofitsownersorshareholders?Ifyes,pleasedescribe the circumstances.

- None

8. Providethename,address,accountnumber,contactpersonandtelephonenumberoftheinsuranceagentresponsibleforprocuringinsurancerequiredbytheSolicitationDocuments.

Name	CFM Insurance
Address	50 N. Brockway St, Suite 5-2 Palatine, IL 60067
Account Number	
Contact Person	David Meyer
Telephone Number	(847) 934-0200

9. Providethename,address,contactpersonandtelephoneofthreebusinesscreditreferences,includingbutnotlimitedtoyourprimarybankinginstitution.

Name	Associated Bank
Address	330 E Kilbourn Ave, Milwaukee, WI
Contract Person	Thomas Peterson
Telephone number	414-283-2343

Name	Royersford Spring Company
Address	98 Main Street, Royersford PA
Contract Person	Ted Claghorn
Telephone number	610-948-4440

10. Hasthebusinessoranyofthebusiness'sownersorshareholderseverfiledforbankruptcyorinvokedinsolvencyproceedingsunderstatelaw?

- None

11. Providethelastthree(3)yearsofauditedfinancialstatements,orreasonableequivalentoftheOfferor.IftheOfferorisajointventureorothercombinationofbusinessentities,providethelastthree(3) yearsauditedfinancialstatementsforeachentity.

- N/A – Privately Held

12. Providethebusiness'scurrentcodeofbusinessethicsorequivalent.

- According to our Employee Handbook:

  "We will demonstrate trust, respect and maintain high ethical standards."

  "Employees must conduct all Company transactions in an ethical and lawful manner to protect the best interests of the Company. Employees must comply with the guidelines governing corporate and individual standards of conduct."

MASSACHUSETTS DEPT. OF REVENUE
P.O. BOX 7066
BOSTON, MA 02204

AMY PITTER, COMMISSIONER
ROBERT O'NEILL, BUREAU CHIEF

KUSTOM SEATING UNLIMITED, INC.
3000 MADISON STREET
BELLWOOD, IL 601042219

T/P ID 363512613
Date 1/24/2014
Bureau CERTIFICATE

CERTIFICATE OF GOOD STANDING AND/OR TAX COMPLIANCE

The Commissioner of Revenue certifies as of the above date, that the above named individual or entity is in compliance with its tax obligations payable under M.G.L. c. 62C, including corporation excise, sales and use taxes, sales tax on meals, withholding taxes, room occupancy excise and personal income taxes, with the following exceptions.

This Certificate certifies that individual taxpayers are in compliance with income tax obligations and any sales and use taxes, sales tax on meals, withholding taxes, and/or room occupancy taxes related to a sole proprietorship. Persons deemed responsible for the payment of these taxes on behalf of a corporation, partnership or other business entity may not use our automated process to obtain a Certificate.

This Certificate does not certify that the entity's standing as to taxes such as unemployment insurance administered by agencies other than the Department of Revenue, or taxes under any other provisions of law. Taxpayers required to collect or remit the following taxes must submit a separate request to certify compliance: Alcoholic Beverage Excise, Cigarette Excise, Sales Tax on Boats, International Fuels Tax Agreement, Smokeless Tobacco or Ferry Embarkation.

THIS IS NOT A WAIVER OF LIEN ISSUED UNDER GENERAL LAWS, CHAPTER 62C, SECTION 52.

Very truly yours

R. O'Neill

Robert O'Neill, Bureau Chief

The MBTA specification currently requires that the primary suppliers of subsystems delineated in Tab 1.1 to have the following information included in a Bidder's Proposal. We request that you provide this information to us so that it can be incorporated into our submittal. As noted in our cover letter, we are requesting clarification from MBTA regarding the need for this material. We will advise you of their response, but we must currently proceed as if it will be required. We request your return of this information by January 31, 2014.

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.

   LECIP: Not Applicable – LECIP Inc. is incorporated in Illinois.

2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.

   LECIP Holdings Corporation +81-58-324-3121

3. Provide the names, title and telephone numbers of all officers.

Kazuo Ueno	CEO	312-626-2525
Chung Chung Tam	President & COO	312-626-2525
Fumitoshi Nakamura	CFO	312-626-2525
Toyoji Sugisawa	Secretary	312-626-2525

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.

   No.

5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.

   No.

6. Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.

   No.

7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.

   No.

8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

   Secure Futures
   1622 Willow Road, Suite 111, Northfield, IL 60093
   Auto: 35UECJE7438
   Pack: 355BAPJ4952
   Workers Comp: 35WECVY0168
   Contact person: Diane Klimek
   Telephone Number: 847-999-9906

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

   Vitaltech
   850 W. Jackson, Suite 575, Chicago, IL 60607
   Contact Person: Micheal Berk
   Telephone: 312-533-4900

   Bank of Tokyo –Mitsubishi UFJ
   227 WE Monroe St, Chicago, Il 60606
   Contact Person: Natsuko Dunn
   Telephone: 312-696-4690

   Northstar Metal Products, Inc.
   591 Mitchell Road, Glendale Heights, IL 60139
   Contact Person: Jeffery True
   Telephone: 630-446-7800

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?

    No

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity.

    Please see attached Financial Statement from LECIP Holdings Corporation.

12. Provide the business's current code of business ethics or equivalent.

    Please see LECIP Inc. Code of Ethics document.

13. Provide the responses to Questions Nos. 1 through 12 for all proposed suppliers of major subsystems identified in response to Tab I.1 - Technical Approach.

    N/A

LECIP HOLDINGS CORPORATION
and Consolidated Subsidiaries

Consolidated Financial Statements
for the Years Ended March 31, 2011 and 2010
and Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Nagoya Daiya Building 3-goukan
13-5, Meieki, 3-chome, Nakamura-ku
Nagoya, Aichi 450-8530
Japan

Tel:+81 (52) 565 5511
Fax:+81 (52) 569 1394
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of LECIP HOLDINGS CORPORATION:

We have audited the accompanying consolidated balance sheets of LECIP HOLDINGS CORPORATION (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2011 and 2010, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LECIP HOLDINGS CORPORATION and consolidated subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 24, 2011

Member of
Deloitte Touche Tohmatsu Limited

LECIP HOLDINGS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2011 AND 2010

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 883,347	¥ 524,046	$ 10,643
Time deposits	70,000	70,000	843
Notes and accounts receivable:			
Trade notes and accounts	4,391,926	5,723,193	52,915
Non-consolidated subsidiaries	7,317	-	88
Other	41,406	51,286	499
Allowance for doubtful accounts	(1,900)	(2,630)	(23)
	4,438,749	5,771,849	53,479
Inventories (Note 4)	1,383,312	1,332,027	16,666
Deferred tax assets (Note 10)	102,874	219,404	1,239
Prepaid expenses and other current assets	40,505	69,717	489
Total current assets	6,918,787	7,987,043	83,359
PROPERTY, PLANT AND EQUIPMENT (Note 7):			
Buildings and structures	3,042,417	3,192,715	36,655
Machinery and equipment	4,267,694	4,147,709	51,418
	7,310,111	7,340,424	88,073
Accumulated depreciation	(5,855,224)	(5,731,523)	(70,545)
	1,454,887	1,608,901	17,528
Land	120,186	130,957	1,448
Construction in progress	1,307	277	16
Net property, plant and equipment	1,576,380	1,740,135	18,992
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	238,958	223,597	2,879
Investments in non-consolidated subsidiaries	207,245	108,845	2,497
Deferred tax assets (Note 10)	400,334	255,992	4,823
Other assets (Notes 6)	356,683	206,168	4,298
Total investments and other assets	1,203,220	794,602	14,497
TOTAL	¥ 9,698,387	¥ 10,521,780	$ 116,848

(Continued)

LECIP HOLDINGS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2011 AND 2010

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2011	**2010**	**2011**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 7)	-	¥ 660,000	-
Current portion of long-term debt (Note 7)	¥ 265,101	176,228	¥ 3,194
Notes and accounts payable:			
Trade notes and accounts	2,145,398	2,549,273	25,848
Other	489,658	347,635	5,900
	2,635,056	2,896,908	31,748
Accrued expenses	359,870	458,993	4,336
Income taxes payable	177,042	56,616	2,133
Other current liabilities	48,270	75,518	581
Total current liabilities	3,485,339	4,324,263	41,992
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	707,089	651,594	8,519
Liability for employees' retirement benefits (Note 8)	14,120	11,310	170
Other long-term liabilities	216,009	245,581	2,603
Total long-term liabilities	937,218	908,485	11,292
EQUITY (Note 9):			
Common stock:			
Authorized - 22,000,000 thousand shares			
Issued - 6,399,100 thousand shares			
in 2011 and 2010	735,645	735,645	8,863
Capital surplus	719,407	719,407	8,668
Retained earnings	3,838,438	3,887,402	46,246
Treasury stock - at cost: 8,797 shares in 2011 and 8,685 shares in 2010	(14,104)	(14,030)	(170)
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	37,036	33,308	446
Foreign currency translation adjustments	(40,592)	(72,700)	(489)
Total	(3,556)	(39,392)	(43)
Total equity	5,275,830	5,289,032	63,564
TOTAL	¥ 9,698,387	¥ 10,521,780	$ 116,848

See notes to consolidated financial statements.

(Concluded)

LECIP HOLDINGS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED MARCH 31, 2011 AND 2010

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
NET SALES	¥ 12,575,652	¥ 13,633,296	$ 151,514
COST OF SALES (Note 11)	10,087,192	10,905,713	121,533
Gross profit	2,488,460	2,727,583	29,981
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	2,348,502	2,661,767	28,295
Operating income	139,958	65,816	1,686
OTHER INCOME (EXPENSES):			
Interest and dividend income	4,526	4,526	55
Interest expense	(13,879)	(22,380)	(167)
Grants received	3,835	18,954	46
Gain on sales and disposals of long-lived asses, net	45,290	1,912	546
Refunded import duty	6,662	-	80
Gain on sales of scraps	10,353	3,085	125
Foreign exchange loss, net	(7,270)	(10,016)	(88)
Prior year adjustment	-	31,440	-
Write-down of investment securities	(59)	(7,862)	(1)
Impairment loss of long-lived assets	-	(19,619)	-
Special retirement payments	-	(29,757)	-
Compensation income	37,981	3,800	458
Other-net	15,932	6,538	192
Other income (expenses) - net	103,371	(19,379)	1,246
NET INCOME BEFORE MINORITY INTERESTS	243,329	46,437	2,932
INCOME BEFORE INCOME TAXES	243,329	46,437	2,932
INCOME TAXES (Note 10):			
Current	204,292	58,765	2,461
Deferred	(7,856)	(54,163)	(94)
Total income taxes	196,436	4,602	2,367
NET INCOME	¥ 46,893	¥ 41,835	$ 565

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.s and 16):			
Basic net income	¥ 7.34	¥ 6.55	$ 0.08
Cash dividends applicable to the year	12.50	15.00	0.15

See notes to consolidated financial statements.

LECIP HOLDINGS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31, 2011

	Thousands of 2011	Thousands of U.S. Dollars (Note 1) 2011
NET INCOME BEFORE MINORITY INTERESTS	¥ 46,893	$ 565
OTHER COMPREHENSIVE INCOME (Note 15):		
Unrealized gain on available-for-sale securities	3,728	45
Foreign currency translation adjustments	32,108	387
Total other comprehensive income	35,836	432
COMPREHENSIVE INCOME (Note 15)	¥ 82,729	¥ 997
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 15):		
Owners of the parent company	¥ 82,729	¥ 997
Minority interests	-	-

See notes to consolidated financial statements.

LECIP HOLDINGS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED MARCH 31, 2011AND 2010

	Shares	Thousands of Yen						
						Accumulated other comprehensive income		
	Number of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Total Equity
BALANCE AT MARCH 31, 2009	6,390,415	¥ 735,645	¥ 719,407	¥ 3,954,204	¥ (14,030)	¥ 14,238	¥ (70,343)	¥ 5,339,121
Net income	-	-	-	41,835	-	-	-	41,835
Cash dividends, ¥17 per share	-	-	-	(108,637)	-	-	-	(108,637)
Net changes in the year	-	-	-	-	-	19,070	(2,357)	16,713
BALANCE AT MARCH 31, 2010	6,390,415	735,645	719,407	3,887,402	(14,030)	33,308	(72,700)	5,289,032
Net income	-	-	-	46,893	-	-	-	46,893
Cash dividends, ¥15 per share	-	-	-	(95,857)	-	-	-	(95,857)
Purchase of treasury stock	(112)	-	-	-	(74)	-	-	(74)
Net changes in the year	-	-	-	-	-	3,728	32,108	35,836
BALANCE AT MARCH 31, 2011	6,390,303	¥ 735,645	¥ 719,407	¥ 3,838,438	¥ (14,104)	¥ 37,036	¥ (40,592)	¥ 5,275,830

	Thousands of U.S. Dollars (Note 1)							
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments		Total
BALANCE AT MARCH 31, 2010	$ 8,863	$ 8,668	$ 46,836	$ (169)	$ 401	$ (876)	-	$ 63,723
Net income	-	-	565	-	-	-	-	565
Cash dividends, ¥0.18 per share	-	-	(1,155)	-	-	-	-	(1,155)
Purchase of treasury stock	-	-	-	(1)	-	-		(1)
Net changes in the year	-	-	-	-	45	387	-	432
BALANCE AT MARCH 31, 2011	$ 8,863	$ 8,668	$ 46,246	$ (170)	$ 446	$ (489)		$ 63,564

See notes to consolidated financial statements.

LECIP HOLDINGS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2011 AND 2010

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
OPERATING ACTIVITIES:			
Income before income taxes	¥ 243,329	¥ 46,437	$ 2,932
Adjustments for:			
Income taxes - paid	(84,310)	(372,668)	(1,016)
Depreciation and amortization	308,977	353,721	3,723
Gain on sales and disposals of long-lived assets, net	(45,290)	(1,912)	(546)
Impairment loss on long-lived assets	-	19,619	-
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	1,215,461	(709,080)	14,644
(Increase) decrease in inventories	(52,601)	231,945	(634)
(Decrease) increase in notes and accounts payable - trade	(225,083)	101,094	(2,712)
Increase (decrease) in liability for retirement benefits	2,809	(9,297)	34
Other - net	(61,685)	(186,364)	(743)
Total adjustments	1,058,278	(572,942)	12,750
Net cash provided by (used in) operating activities	1,301,607	(526,505)	15,682
INVESTING ACTIVITIES:			
Purchases of investment securities	(9,231)	(24,967)	(111)
Proceeds from sales of investment securities	-	11,380	-
Acquisition of shares of a non-consolidated subsidiary	(98,400)	(45,245)	(1,186)
Purchases of property, plant and equipment	(144,402)	(197,329)	(1,740)
Proceeds from sales of property, plant and equipment	89,464	27,035	1,078
Other - net	(98,364)	(10,204)	(1,185)
Net cash used in investing activities	(260,933)	(239,330)	(3,144)
FINANCING ACTIVITIES:			
(Decrease) increase in short-term borrowings - net	(660,000)	436,140	(7,952)
Proceeds from long-term debt	300,000	280,000	3,614
Repayment of long-term debt	(213,510)	(164,392)	(2,572)
Cash dividends	(95,714)	(108,300)	(1,153)
Other-net	(14,333)	(8,763)	(173)
Net cash (used in) provided by financing activities	(683,557)	434,685	(8,236)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	2,184	(8,757)	27
NET DECREASE IN CASH AND CASH EQUIVALENTS	359,301	(339,907)	4,329
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	524,046	863,953	6,314
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 883,347	¥ 524,046	$ 10,643

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2011 AND 2010

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 15. In addition, "net income before minority interests" is disclosed in the consolidated statement of income from the year ended March 31, 2011.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2010 financial statements to conform to the classifications used in 2011.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which LECIP HOLDINGS CORPORATION (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥ 83 to $ 1, the approximate rate of exchange at March 31, 2011. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation **—** The consolidated financial statements as of March 31, 2011 include the accounts of the Company and its 5 significant (3 in 2010) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in remaining non-consolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements **—** In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated

Financial Statements." PITF No.18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the presentation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

c. ***Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits which mature within three months from the date of acquisition.

d. ***Inventories***— Inventories are stated at the lower of cost, determined by the average method for finished products and work in process, by the weighted average cost for merchandise and raw materials, and by the last purchase price method for supplies, or net selling value.

e. ***Investment Securities***—All investment securities are classified and accounted for, depending on management's intent, as available-for-sale securities, which are not classified as either trading securities or held-to-maturity securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

f. ***Property, Plant and Equipment***—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiary is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998 and lease assets of the Company and its consolidated domestic subsidiary, and all property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 47 years for buildings and structures, and from 4 to 12 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

g. ***Long-lived assets***—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured at the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. ***Other assets***—Software for internal use is amortized over 5 years by the straight-line method.

i. ***Retirement and Pension Plans***—The Company and its domestic consolidated subsidiary have defined contribution pension plans for employees and unfunded retirement benefit plans for part-time employees.

For part-time employees, the Company and its domestic consolidated subsidiary have defined benefit pension plans and account for the liability for retirement benefits based on the amount that would be required if all the part-time employees are retired at each balance sheet date.

j. ***Asset Retirement Obligations***—In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No.18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No.21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010. The effect of this change was to decrease operating income by ¥ 477 thousand ($ 6 thousand) and income before income taxes and minority interests by ¥ 2,702 thousand ($ 33 thousand).

k. ***Research and Development Costs***—Research and development costs are charged to income as incurred.

l. ***Leases***— In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet.

The Company and its domestic consolidated subsidiary applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions as perrmitted under the revised accounting standard.

All other leases are accounted for as operating leases.

m. ***Bonuses to directors and corporate auditors*** **—** Bonuses to directors and corporate auditors are accrued in the year to which such bonuses are attributable.

n. ***Construction Contracts*****—**In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts," and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under the previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method was permitted to account for construction contracts. Under this new accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts. This standard is applicable to construction contracts and software development contracts and was effective for fiscal years beginning on or after April 1, 2009. The Company applied the accounting standard effective April 1, 2009 for its software sales contracts.

o. ***Income Taxes*****—**The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

p. ***Foreign Currency Transactions*****—**All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

q. ***Foreign Currency Financial Statements*****—**The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

r. ***Derivatives and Hedging Activities*****—**The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of the high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts employed to hedge foreign exchange exposures for export sales are measured at fair value and the unrealized gains and losses are recognized in income.

Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

s. ***Per Share Information*****—**Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed since the Company has no dilutive securities.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

t. New Accounting Pronouncements

Accounting Changes and Error Corrections**—**In December 2009, ASBJ issued ASBJ Statement No. 24 “Accounting Standard for Accounting Changes and Error Corrections” and ASBJ Guidance No. 24 “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies - When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentations - When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates - A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior Period Errors - When an error in prior period financial statements is discovered, those statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3. INVESTMENT SECURITIES

Investment securities at March 31, 2011 and 2010 consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Non-current:			
Equity securities	¥ 238,958	¥ 223,597	$2,879
Total	¥ 238,958	¥ 223,597	$2,879

The costs and aggregate fair values of investment securities at March 31, 2011 and 2010 were as follows:

	Thousands of Yen			
March 31, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 123,220	¥ 72,326	¥ 10,836	¥ 184,710

	Thousands of Yen			
March 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 114,047	¥ 56,557	¥ 1,255	¥ 169,349

	Thousands of U.S. Dollars			
March 31, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 1,485	$ 871	$ 131	$ 2,225

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2011 and 2010 were as follows:

	Carrying amount		
	Thousands of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Available-for-sale:			
Equity securities	¥ 54,248	¥ 54,248	$ 654

There were no available-for-sale securities sold during the year ended March 31, 2011.

The information of available-for-sale securities which were sold during the year ended March 31, 2010 was as follows:

	Thousands of Yen		
March 31, 2010	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 11,380	¥ 848	-

The impairment losses on available-for-sale equity securities for the years ended March 31, 2011 and 2010 were ¥59 thousand ($1 thousand) and ¥7,862 thousand, respectively.

4. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Merchandise and finished products	¥ 331,931	¥ 277,781	$3,999
Work-in-process	364,907	332,276	4,396
Raw materials	676,131	707,592	8,146
Supplies	10,343	14,378	125
Total	¥ 1,383,312	¥ 1,332,027	$ 16,666

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2011 and 2010. As a result, for the year ended March 31, 2010, the Group recognized an impairment loss of ¥19,619 thousand as other expense for certain assets of Thai LECIP Corporation Limited due to the close down of a plant. No impairment loss was recognized in 2011.

6. INVESTMENT PROPERTY

On November 28, 2008, the ASBJ issued ASBJ Statement No. 20, "Accounting Standard for Investment Property and Related Disclosures," and issued ASBJ Guidance No.23, "Guidance on Accounting Standard for Investment Property and Related Disclosures." This accounting standard and the guidance were applicable to investment property and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the new accounting standard and guidance effective March 31, 2010.

The Group was some rental properties such as office buildings in Gifu City. Rental income net of operating expenses for those rental properties was ¥29,407 thousand ($354 thousand) for the fiscal year ended March 31, 2011.

In addition, the carrying amounts, changes in such balances and market prices of such properties are as follows:

Thousands of Yen			
Carrying Amount			Fair Value
April 1, 2010	Increase/ (Decrease)	March 31, 2011	March 31, 2011

¥ 89,233	¥ (134)	¥89,099	¥353,000

Thousands of Yen			
Carrying Amount			Fair Value
April 1, 2009	Increase/ (Decrease)	March 31, 2010	March 31, 2010
¥ 95,041	¥ (5,808)	¥ 89,233	¥ 374,000

Thousands of U.S.Dollars			
Carrying Amount			Fair Value
April 1, 2010	Increase/ (Decrease)	March 31, 2011	March 31, 2011
$ 1,075	$ (2)	$1,073	$4,253

Notes:
1) Carrying amount recognized in balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2) Fair values of properties as of March 31, 2011 and 2010 are measured by the Group in accordance with its Real-estate Appraisal Standard.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2010 consisted mainly of bank overdrafts and notes to banks. The weighted average interest rate on short-term borrowings as of March 31, 2010 was 0.67%. There were no short-term borrowings at March 31, 2011.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Borrowings from banks due serially to March 2014 with weighted average interest rates of 1.24% (2011) and 1.38% (2010)	¥ 862,898	¥ 776,408	$ 10,396
Lease obligations	109,292	51,414	1,317
Total	972,190	827,822	11,713
Less: portion due within one year	(265,101)	(176,228)	(3,194)
Long-term debt, less current portion	¥ 707,089	¥ 651,594	$ 8,519

Annual maturities of long-term debt and lease obligations at March 31, 2011, were as follows:

Year ending March 31	Thousands of Yen	Thousands of U.S. Dollars
2012	¥ 265,101	$ 3,194
2013	484,979	5,843
2014	198,808	2,395
2015	16,380	197
2016	6,922	84
2017 and thereafter	-	-
Total	¥972,190	$11,713

The carrying amounts of assets pledged as collateral for short-term borrowings and long-term debt (including current portion) of ¥669,170 thousand ($8,062 thousand) at March 31, 2011 were as follows:

	Thousands of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥ 1,108,908	$ 13,360

8. LIABILITY FOR RETIREMENT BENEFITS

The Company and its consolidated domestic subsidiary have retirement benefit plans for employees. The Company and its domestic consolidated subsidiary have defined contribution plans for employees and unfunded defined benefit pension plans for part-time employees.

The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Projected benefit obligation	¥14,120	¥ 11,310	$ 170
Amount recognized as liability	¥14,120	¥ 11,310	$ 170

The components of net periodic benefit costs for the years ended March 31, 2011 and 2010 were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Service cost	¥79,176	¥ 109,851	$ 954
Additional retirement payments	10,698	2,034	129
Net periodic benefit costs	¥89,874	¥ 111,885	$1,083

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends
Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies meeting certain criteria such as; (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all of the above criteria. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Company qualifies for this provision. The Companies Act provides

certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥ 3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus
The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights
The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. INCOME TAXES

The Company and its domestic consolidated subsidiary are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rate of approximately 39.8% for the years ended March 31, 2011 and 2010.

The tax effects of significant temporary differences and tax loss carry-forwards which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Deferred Tax Assets:			
Allowance for bad debt	¥ 17,222	¥ 10,115	$208
Accrued bonuses	75,055	106,075	904
Accrued warranty	21,840	24,672	263
Accrued enterprise tax	16,985	4,495	205
Accrued retirement benefits to directors and corporate auditors	52,792	52,792	636
Accrued social insurance	10,491	14,564	126
Property, plant and equipment	27,540	32,946	332
Small depreciable property	21,185	10,575	255
Inventories	40,952	57,996	493
Impairment of long-lived assets	20,465	25,625	247
Loss on liquidation of a subsidiary	134,565	130,242	1,621
Amount of tax loss carry forwards	251,448	136,293	3,030
Other	30,542	33,264	368
Total	721,082	639,654	8,688
Less: valuation allowance	(193,292)	(142,116)	(2,329)
Total deferred tax assets	¥ 527,790	¥ 497,538	$6,359
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	¥ 24,455	¥ 21,993	$ 295
Other	127	149	2
Total deferred tax liabilities	¥ 24,582	¥ 22,142	297
Net deferred tax assets	¥ 503,208	¥ 475,396	$ 6,062

Reconciliations between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
Normal effective statutory tax rate	39.8 %	39.8 %
Expenses not deductible for income tax purposes	9.5	30.8
Revenues excluded from income tax such as dividend received	-	(1.6)
Per capita tax	4.5	21.2
Net change in valuation allowance	23.5	199.6
Tax adjustments	-	7.6
Different income rate applicable to certain consolidated subsidiaries	(4.8)	(6.3)
Loss on liquidation of a subsidiary	-	(280.5)
Foreign currency translation adjustment	9.2	-
Other - net	(1.0)	(0.7)
Actual effective tax rate	80.7 %	9.9 %

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs were ¥168,127 thousand ($2,026 thousand) and ¥164,460 thousand for the years ended March 31, 2011 and 2010, respectively.

12. LEASES

The Group leases certain machinery, computers and software.

Pro forma information of leased property whose lease inception was before March 31, 2008

ASBJ Statement No.13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, the ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee and whose lease inception was before March 31, 2008 to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements. The Company applied ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 was as follows:

(As lessee)

	Thousands of Yen			
March 31, 2011	Machinery	Tools	Other	Total
Acquisition cost	¥ 353,230	¥ 14,820	¥ 48,662	¥ 416,712
Accumulated depreciation	338,587	13,039	42,048	393,674
Net leased property	¥ 14,643	¥ 1,781	¥ 6,614	¥ 23,038

	Thousands of Yen			
March 31, 2010	Machinery	Tools	Other	Total
Acquisition cost	¥ 553,904	¥ 73,326	¥ 49,699	¥ 676,929
Accumulated depreciation	460,653	65,450	33,288	559,391
Net leased property	¥ 93,251	¥ 7,876	¥ 16,411	¥ 117,538

	Thousands of U.S. Dollars			
March 31, 2011	Machinery	Tools	Other	Total
Acquisition cost	$ 4,255	$ 178	$ 587	$ 5,020
Accumulated depreciation	4,079	157	507	4,743
Net leased property	$ 176	$ 21	$ 80	$ 277

Obligations under finance leases:

	Thousands of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥ 20,493	¥ 97,007	$ 247
Due after one year	3,502	23,995	42
Total	¥ 23,995	¥ 121,002	$ 289

Depreciation expense, interest expense and other information under finance leases:

	Thousands of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Depreciation expense	¥ 94,501	¥ 130,875	$ 1,139
Interest expense	858	2,172	10
Total	¥ 95,359	¥ 133,047	$ 1,149
Lease payments	¥ 97,865	¥ 135,418	$ 1,179

Depreciation expense and interest expense, which are not reflected in the accompanying statements of income, are computed by the straight-line method and the interest method, respectively.

(As lessor)

Pro forma information of such leases which existed at the transition date on an "as if sold" basis for the years ended March 31, 2011 and 2010 was as follows:

	Buildings and structures		
	Thousands of Yen		Thousands of U.S. Dollars
March 31	2011	2010	2011
Acquisition cost	¥ 102,500	¥ 137,500	$ 1,235
Accumulated depreciation	55,888	59,886	673
Net leasing property	¥ 46,612	¥ 77,614	$ 562

Expected revenue:

	Thousands of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥ 3,876	¥ 6,132	$ 46
Due after one year	33,592	59,276	405
Total	¥ 37,468	¥ 65,408	$ 451

The amounts of expected revenue under the finance leases include the imputed interest revenue portion.

Lease revenue and depreciation expenses under finance leases:

	Thousands of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Lease revenue	¥ 3,876	¥ 6,132	$ 47
Depreciation expenses	4,969	5,808	60

Expected lease revenues to be received under the non-cancelable operating lease subsequent to March 31, 2011 and 2010 were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥ 17,280	¥ 36,252	$ 208
Due after one year	150,096	350,775	1,808
Total	¥ 167,376	¥ 387,027	$ 2,016

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," and issued ASBJ Guidance No.19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance was applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) Group policy for financial instruments

The Group uses financial instruments, mainly long-term debt including bank loans, based on its management and financing plan. Short-term bank borrowings are used to fund its ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and extent of risks arising from financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position is hedged by using forward foreign currency contracts. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are five months or less. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged by using forward foreign currency contracts.

Maturities of bank loans and long-term debt are six years or less after the balance sheet date.

Derivatives include forward foreign currency contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables. Please see Note 14 for more detail about derivatives.

(3) Risk management for financial instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Company and its subsidiaries manage their credit risks from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of customers to identify the default risk of customers at an early stage. Please see Note 14 for the detail about derivatives.

Market risk management

Foreign currency trade receivables and payables are exposed to market risk resulting from

fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged by forward foreign currency contracts.

Investment securities are managed by monitoring the market values and financial position of issuers on a regular basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets, along with adequate financial planning by the planning and accounting department.

(4)Fair values of financial instruments

Fair values of financial instruments are based on a quoted price in active markets. If a quoted price is not available, other rational valuation techniques are used instead.

(a) Fair value of financial instruments

	Thousands of Yen		
March 31, 2011	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 883,347	¥ 883,347	-
Time deposits	70,000	70,000	-
Trade notes and accounts receivable	4,399,243	4,399,243	-
Investment securities	184,710	184,710	-
	¥ 5,537,300	¥ 5,537,300	-
Trade notes and accounts payable	¥ 2,145,398	¥ 2,145,398	-
Long-term debt including current portion	972,190	979,683	¥ 7,493
Other accounts payable	489,658	489,658	-
Income taxes payable	177,042	177,042	-
	¥ 3,784,288	¥ 3,791,781	¥ 7,493

	Thousands of Yen		
March 31, 2010	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 524,046	¥ 524,046	-
Time deposits	70,000	70,000	-
Trade notes and accounts receivable	5,723,193	5,723,193	-
Investment securities	169,349	169,349	-
	¥ 6,486,588	¥ 6,486,588	-
Trade notes and accounts payable	¥ 2,549,273	¥ 2,549,273	-
Short-term borrowings	660,000	660,000	-
Long-term debt including current portion	827,822	831,488	¥ 3,666
Other accounts payable	347,635	347,635	-
Income taxes payable	56,616	56,616	-
	¥ 4,441,346	¥ 4,445,012	¥ 3,666

March 31, 2011	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 10,643	$ 10,643	-
Time deposits	843	843	-
Trade notes and accounts receivable	53,003	53,003	-
Investment securities	2,225	2,225	-
	$ 66,714	$ 66,714	-
Trade notes and accounts payable	$ 25,848	$ 25,848	-
Long-term debt including current portion	11,713	11,803	$ 90
Other accounts payable	5,900	5,900	-
Income taxes payable	2,133	2,133	-
	$ 45,594	$ 45,684	$ 90

Cash and cash equivalents and Time deposits

The carrying values of cash and cash equivalents and time deposits approximate fair value because of their short maturities.

Trade notes and accounts receivables

The carrying values of trade notes and accounts receivables approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments.

Trade notes and accounts payables, Short-term borrowings, Other accounts payable and Income taxes payable

The carrying values of these financial instruments approximate fair value because of their short maturities.

Long-term debt including current portion

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

(b) Financial instruments whose fair value cannot be reliably determined

	Thousands of Yen		Thousands of U.S.Dollars
	2011	2010	2011
Investments in equity instruments that do not have a quoted market price in an active market	¥ 54,249	¥54,249	$ 654
Investments in non-consolidated subsidiaries	¥163,645	¥108,845	$1,972

(5) Maturity analysis for financial assets and securities with contractual maturities

Please see Note 7 for annual maturities of long-term debt.

14. DERIVATIVES

The Company enters into foreign exchange forward contracts to reduce foreign currency exchange risk related to exports and imports. The Company does not enter into derivative transactions for trading or speculative purposes, and applies hedge accounting for all derivatives.

The Company holds foreign exchange forward contracts associated with exports and imports, only up to the estimated amounts of sales to and purchases from overseas customers and suppliers.

Although foreign exchange forward contracts and interest rate swaps are subject to market risk, the counterparties to these derivatives are limited to major domestic financial institutions and the Company does not anticipate any losses arising from market risk.

The Company has internal policies for derivative transactions. Under these internal policies, based on the requests from the department related to exports and imports, derivative transactions are carried out by the planning and accounting department of the Company. The planning and accounting department reports to the managers in charge of the operation periodically.

Since no derivatives contracts were outstanding at March 31, 2011 and 2010, quantitative information of derivatives were not disclosed.

15. COMPREHENSIVE INCOME

For the year ended March 31, 2010

Total comprehensive income for the year ended March 31, 2010 was the following:

	2010
Total comprehensive income attributable to:	
Owners of the parent	¥58,548
Minority interests	-
Total comprehensive income	¥58,548

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	2010
Other comprehensive income:	
Unrealized gain on available-for-sale securities	¥19,070
Foreign currency translation adjustments	(2,357)
Total other comprehensive income	¥16,713

16. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2011 and 2010 is calculated as follows:

	Thousands of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2011				
Basic EPS				
Net income available to common shareholders	¥ 46,893	6,390	¥ 7.34	$ 0.08
For the year ended March 31, 2010:				
Basic EPS				
Net income available to common shareholders	¥ 41,835	6,390	¥ 6.55	

17. SEGMENT INFORMATION

For the year ended March 31, 2011 and 2010

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No.20 "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.
The segment information for the year ended March31, 2010 under the revised accounting standard is also disclosed hereunder as required.

1. Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group consists of three segments; Transport Equipment, Sign and Display and Industrial Equipment. Transport Equipment segment provides system equipments for buses and trains and lighting equipments for vehicles. Sign and Display segment manufactures and sells neon transformers, lighting effect units for outside display, cold cathode lumps and power supply units for LED. Industrial Equipment segment consists of manufacturing terminal readers, power backup units, rechargers for battery-driven forklift, battery charger and board implementation.

2. Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies."

3. Information about sales, profit (loss), assets, liabilities and other items is as follows.

	Thousands of Yen							
	2011							
	Reportable segment							
	Transport Equipment	Sign and Display	Industrial Equipment	Total	Other	Total	Reconciliations	Consolidated
Sales								
Sales to customers	¥8,525,361	¥825,526	¥3,181,188	¥12,532,075	¥43,577	¥12,575,652	-	¥12,575,652
Intersegment sales or transfers	-	-	-	-	-	-	-	-
Total	8,525,361	825,526	3,181,188	12,532,075	43,577	12,575,652	-	12,575,652
Segment profit (loss)	357,490	(230,797)	64,429	191,122	18,949	210,071	¥(70,113)	139,958
Segment assets	5,226,533	726,524	1,518,066	7,471,123	89,104	7,560,227	2,138,160	9,698,387
Other:								
Depreciation	155,826	39,053	47,517	242,396	3,205	245,601	63,376	308,977
Increase in property, plant and equipment and intangible assets	146,380	10,355	33,378	190,113	-	190,113	56,162	246,275

	Thousands of Yen							
	2010							
	Reportable segment							
	Transport Equipment	Sign and Display	Industrial Equipment	Total	Other	Total	Reconciliations	Consolidated
Sales								
Sales to customers	¥9,107,482	¥1,380,510	¥3,097,672	¥13,585,664	¥47,632	¥13,633,296	-	¥13,633,296
Intersegment sales or transfers	-	-	-	-	-	-	-	-
Total	9,107,482	1,380,510	3,097,672	13,585,664	47,632	13,633,296	-	13,633,296
Segment profit	424,252	(209,018)	(122,327)	92,907	36,285	129,192	¥(63,376)	65,816
Segment assets	6,251,031	1,106,149	1,461,066	8,818,246	89,233	8,907,479	1,614,301	10,521,780
Other:								
Depreciation	212,975	33,100	43,760	289,835	5,808	295,643	58,078	353,721
Increase in property, plant and equipment and intangible assets	68,544	45,871	24,135	138,550	-	138,550	50,322	188,872
Impairment losses of assets	-	19,619	-	19,619	-	19,619	-	19,619

	Thousands of U.S. Dollars							
	2011							
	Reportable segment							
	Transport Equipment	Sign and Display	Industrial Equipment	Total	Other	Total	Reconciliations	Consolidated
Sales								
Sales to customers	$102,715	$9,946	$38,328	$150,989	525	$151,514	-	$151,514
Intersegment sales or transfers	-	-	-	-	-	-	-	-
Total	102,715	9,946	38,328	150,989	525	151,514	-	151,514
Segment profit (loss)	4,307	(2,780)	776	2,303	228	2,531	$(845)	1,686
Segment assets	62,970	8,754	18,290	90,014	1,073	91,087	25,761	116,848
Other:								
Depreciation	1,877	471	572	2,920	39	2,959	764	3,723
Increase in property, plant and equipment and intangible assets	1,764	125	402	2,291	-	2,291	676	2,967

Notes：

1. Reconciliations are the corporate expenses or assets.

18. SUBSEQUENT EVENTS

The following appropriation of retained earnings at March 31, 2011 was approved at the Company's shareholders meeting held on June 24, 2011:

a. Appropriation of retained earnings

	Thousands of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥12.5 ($0.15) per share	¥ 79,879	$962

* * * * * *

LECIP HOLDINGS CORPORATION
and Consolidated Subsidiaries

Consolidated Financial Statements
for the Year Ended March 31, 2013,
and Independent Auditor's Report

Deloitte.

トーマツ.

有限責任監査法人 トーマツ 名古屋事務所
〒450-8530
名古屋市中村区名駅三丁目13番5号
名古屋ダイヤビルディング3号館
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of LECIP HOLDINGS CORPORATION:

We have audited the accompanying consolidated balance sheet of LECIP HOLDINGS CORPORATION and its consolidated subsidiaries as of March 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LECIP HOLDINGS CORPORATION and its consolidated subsidiaries as of March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

June 20, 2013

DELOITTE TOUCHE TOHMATSU LLC

LECIP HOLDINGS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
MARCH 31, 2013

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 12)	¥ 649,027	¥ 954,953	$ 6,901
Time deposits (Note 12)	55,000	55,000	585
Notes and accounts receivable (Note 12):			
Trade notes and accounts	5,023,852	5,133,067	53,417
Nonconsolidated subsidiaries	60,969	134	648
Other	49,759	111,409	529
Allowance for doubtful accounts	(48,805)	(1,618)	(519)
	5,085,775	5,242,992	54,075
Inventories (Note 4)	1,446,417	1,493,723	15,379
Deferred tax assets (Note 9)	280,077	242,000	2,978
Prepaid expenses and other current assets	112,036	34,886	1,191
Total current assets	7,628,332	8,023,554	81,109
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Buildings and structures (Note 5)	3,093,754	3,060,390	32,895
Machinery and equipment	896,624	902,230	9,533
Furniture and fixtures	3,239,449	3,357,022	34,444
Lease assets (Note 11)	105,052	84,566	1,117
	7,334,879	7,404,208	77,989
Accumulated depreciation	(6,059,149)	(6,048,920)	(64,425)
	1,275,730	1,355,288	13,564
Land (Note 5)	120,186	120,186	1,278
Construction in progress	7,658	24,847	82
Net property, plant and equipment	1,403,574	1,500,321	14,924
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 12)	279,241	278,024	2,969
Investments in nonconsolidated subsidiaries (Note 12)	61,477	62,219	654
Software	91,168	68,017	969
Deferred tax assets (Note 9)	100,517	161,137	1,069
Other assets	227,060	253,815	2,414
Total investments and other assets	759,463	823,212	8,075
TOTAL	¥ 9,791,369	¥ 10,347,087	$ 104,108

(Continued)

LECIP HOLDINGS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
MARCH 31, 2013

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 12)	¥ 750,000	¥ -	$ 7,974
Current portion of long-term debt (Notes 6 and 12)	258,352	505,291	2,747
Notes and accounts payable (Note 12):			
Trade notes and accounts	2,179,124	2,870,618	23,170
Other	445,188	430,294	4,733
	2,624,312	3,300,912	27,903
Accrued expenses	397,131	559,732	4,223
Income taxes payable (Note 12)	86,253	51,640	917
Other current liabilities	491,845	143,066	5,230
Total current liabilities	4,607,893	4,560,641	48,994
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 12)	208,485	258,795	2,217
Long-term accounts payable - other	125,178	125,178	1,331
Long-term guarantee deposited	70,167	69,971	746
Liability for employees' retirement benefits (Note 7)	17,000	15,080	181
Other long-term liabilities	7,174	8,750	76
Total long-term liabilities	428,004	477,774	4,551
EQUITY (Note 8):			
Common stock:			
Authorized - 22,000,000 shares			
Issued - 6,399,100 shares			
in 2013 and 2012	735,645	735,645	7,822
Capital surplus	719,407	719,407	7,649
Retained earnings	4,039,465	3,842,428	42,950
Treasury stock - at cost: 978,970 shares in 2013 and 8,934 shares in 2012	(771,793)	(14,197)	(8,206)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	48,084	42,313	511
Foreign currency translation adjustments	(15,336)	(16,924)	(163)
Total	4,755,472	5,308,672	50,563
Total equity	4,755,472	5,308,672	50,563
TOTAL	¥ 9,791,369	¥ 10,347,087	$ 104,108

See notes to consolidated financial statements.

(Concluded)

LECIP HOLDINGS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED MARCH 31, 2013

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2013	**2012**	**2013**
NET SALES	¥ 13,480,006	¥ 13,059,997	$ 143,328
COST OF SALES (Note 10)	(10,264,275)	(9,867,707)	(109,136)
Gross profit	3,215,731	3,192,290	34,192
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	(2,738,631)	(2,698,939)	(29,119)
Operating income	477,100	493,351	5,073
OTHER INCOME (EXPENSES):			
Interest and dividend income	4,754	4,551	51
Interest expense	(8,540)	(11,427)	(91)
Grants received	308	3,547	3
Loss on sales and disposals of long-lived asses, net	(1,555)	(839)	(17)
Gain on sales of scraps	11,354	11,214	121
Foreign exchange gain (loss), net	19,209	(1,017)	204
Write-down of investments in nonconsolidated subsidiaries	(9,497)	-	(101)
Gain on sales of investment securities (Note 3)	27,774	-	295
Provision of allowance for investment loss	-	(8,000)	-
Write-down of investments in capital of subsidiaries and affiliates	-	(16,381)	-
Loss of foreign currency translation adjustments due to exclusion of a subsidiary	(16,137)	(50,833)	(172)
Other - net	21,622	14,447	231
Other income (expenses) - net	49,292	(54,738)	524
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	526,392	438,613	5,597
INCOME TAXES (Note 9):			
Current	214,039	226,182	2,276
Deferred	19,463	79,504	207
Total income taxes	233,502	305,686	2,483
NET INCOME BEFORE MINORITY INTERESTS	292,890	132,927	3,114
NET INCOME	¥ 292,890	¥ 132,927	$ 3,114

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.s and 14):			
Basic net income	¥ 46.85	¥ 20.80	$ 0.50
Cash dividends applicable to the year	15.00	15.00	$ 0.16

See notes to consolidated financial statements.

LECIP HOLDINGS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED MARCH 31, 2013

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
NET INCOME BEFORE MINORITY INTERESTS	¥ 292,890	¥ 132,927	$ 3,114
OTHER COMPREHENSIVE INCOME (Note 13):			
Unrealized gain on available-for-sale securities	5,771	5,278	61
Foreign currency translation adjustments	1,587	26,403	17
Total other comprehensive income	7,358	31,681	78
COMPREHENSIVE INCOME (Note 13)	¥ 300,248	¥ 164,608	$ 3,192
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 13):			
Owners of the parent company	¥ 300,248	¥ 164,608	$ 3,192
Minority interests	-	-	-

See notes to consolidated financial statements.

LECIP HOLDINGS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED MARCH 31, 2013

	Shares	Thousands of Yen							
						Accumulated Other Comprehensive Income			
	Number of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total	Total Equity
BALANCE AT APRIL 1, 2011	6,390,303	¥ 735,645	¥ 719,407	¥ 3,838,438	¥ (14,104)	¥ 37,036	¥ (40,592)	¥ 5,275,830	¥ 5,275,830
Net income	-	-	-	132,927	-	-	-	132,927	132,927
Cash dividends, ¥12.5 per share	-	-	-	(79,879)	-	-	-	(79,879)	(79,879)
Change of scope of consolidation	-	-	-	(49,058)	-	-	-	(49,058)	(49,058)
Purchase of treasury stock	(137)	-	-	-	(93)	-	-	(93)	(93)
Change of scope of consolidation - foreign currency translation adjustment	-	-	-	-	-	-	(2,735)	(2,735)	(2,735)
Net changes in the year	-	-	-	-	-	5,277	26,403	31,680	31,680
BALANCE AT MARCH 31, 2012	6,390,166	735,645	719,407	3,842,428	(14,197)	42,313	(16,924)	5,308,672	5,308,672
Net income	-	-	-	292,890	-	-	-	292,890	292,890
Cash dividends, ¥15.0 per share	-	-	-	(95,853)	-	-	-	(95,853)	(95,853)
Purchase of treasury stock	(975,336)	-	-	-	(761,735)	-	-	(761,735)	(761,735)
Disposal of treasury stock	5,300	-	-	-	4,139	-	-	4,139	4,139
Net changes in the year	-	-	-	-	-	5,771	1,588	7,359	7,359
BALANCE AT MARCH 31, 2013	5,420,130	¥ 735,645	¥ 719,407	¥ 4,039,465	¥ (771,793)	¥ 48,084	¥ (15,336)	¥ 4,755,472	¥ 4,755,472

	Thousands of U.S. Dollars (Note 1)							
					Accumulated other comprehensive income			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total	Total Equity
BALANCE AT MARCH 31, 2012	$ 7,822	$ 7,649	$ 40,855	$ (151)	$ 450	$ (180)	$ 56,445	$ 56,445
Net income	-	-	3,114	-	-	-	3,114	3,114
Cash dividends, $0.15 per share	-	-	(1,019)	-	-	-	(1,019)	(1,019)
Purchase of treasury stock	-	-	-	(8,099)	-	-	(8,099)	(8,099)
Disposal of treasury stock	-	-	-	44	-	-	44	44
Net changes in the year	-	-	-	-	61	17	78	78
BALANCE AT MARCH 31, 2013	$ 7,822	$ 7,649	$ 42,950	$ (8,206)	$ 511	$ (163)	$ 50,563	$ 50,563

See notes to consolidated financial statements.

LECIP HOLDINGS CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2013

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 526,392	¥ 438,613	$ 5,597
Adjustments for:			
Income taxes - paid	(198,288)	(342,583)	(2,108)
Depreciation and amortization	243,813	275,817	2,592
Loss on sales and disposals of long-lived assets, net	1,555	839	17
Gain on sales of investment securities	(27,774)	-	(295)
Write-down of investments in nonconsolidated subsidiaries	9,497	-	101
Loss of foreign currency translation adjustments due to exclusion of a subsidiary	16,137	50,833	172
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	49,517	(732,677)	526
Decrease (increase) in inventories	49,608	(105,819)	527
Decrease in claims provable in bankruptcy	68,137	-	725
(Decrease) increase in notes and accounts payable - trade	(657,192)	650,663	(6,987)
Increase (decrease) in advances received	146,471	(1,178)	1,557
Increase in liability for retirement benefits	1,920	960	20
Other - net	18,737	260,524	199
Total adjustments	(277,862)	57,379	(2,954)
Net cash provided by operating activities	248,530	495,992	2,643
INVESTING ACTIVITIES:			
Purchases of investment securities	(5,439)	(35,659)	(58)
Proceeds from sales of investment securities	39,874	-	424
Acquisition of shares of a nonconsolidated subsidiary	(16,741)	-	(178)
Purchases of property, plant and equipment	(63,377)	(134,667)	(674)
Proceeds from sales of property, plant and equipment	-	124	-
Purchases of intangible asset	(93,608)	(32,667)	(995)
Other - net	1,198	13,034	13
Net cash used in investing activities	(138,093)	(189,835)	(1,468)
FINANCING ACTIVITIES:			
Increase in short-term bank loans - net	750,000	-	7,975
Proceeds from long-term debt	190,000	50,000	2,020
Repayments of long-term debt	(472,388)	(248,575)	(5,023)
Cash dividends	(95,852)	(80,131)	(1,019)
Repurchase of treasury stock	(761,735)	(93)	(8,099)
Other - net	(26,393)	(29,414)	(281)
Net cash used in financing activities	(416,368)	(308,213)	(4,427)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	7,149	(6,094)	75
NET DECREASE IN CASH AND CASH EQUIVALENTS	(298,782)	(8,150)	(3,177)
CASH AND CASH EQUIVALENTS OF A NEWLY CONSOLIDATED SUBSIDIARY	-	83,317	-
DECREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM EXCLUSION OF A SUBSIDIARY FROM CONSOLIDATION	(7,144)	(3,561)	(76)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	954,953	883,347	10,154
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 649,027	¥ 954,953	$ 6,901

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2013

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2012 consolidated financial statements to conform to the classifications used in 2013.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which LECIP HOLDINGS CORPORATION (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥94.05 to $1, the approximate rate of exchange at March 31, 2013. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation **—** The consolidated financial statements as of March 31, 2013, include the accounts of the Company and its seven (seven in 2012) significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in remaining nonconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

LECIP (SINGAPORE) PTE LTD is newly included in the scope of consolidation as it was established during the current fiscal year. LECIP U.S.A., INC. is excluded from the scope of consolidation, but the statement of income is consolidated, as it stopped business activities, and the effect of this company on the consolidated financial statements would not be material.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements **—** In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures

applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the presentation of the consolidated financial statements. However financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of research and development (R&D); (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

c. ***Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, which mature within three months from the date of acquisition.

d. ***Inventories***— Inventories are stated at the lower of cost, mainly determined by the annual-average method for finished products and work in process, the moving-average cost for merchandise and raw materials, and the last purchase price method for supplies, or net selling value.

e. ***Investment Securities***—All investment securities are classified and accounted for, depending on management's intent, as available-for-sale securities, which are not classified as either trading securities or held-to-maturity securities, and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

f. ***Property, Plant and Equipment***—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998, and lease assets of the Company and its consolidated domestic subsidiaries, and all property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 47 years for buildings and structures, from 4 to 12 years for machinery and equipment, and from 2 to 20 for furniture and fixtures. The useful lives for lease assets are the terms of the respective leases.

g. ***Long-Lived Assets***—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured at the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. ***Other assets***—Software for internal use is amortized over five years by the straight-line method. And software for sales is amortized over three years, which is the expected sales period, by straight-line method.

i. ***Retirement and Pension Plans—***The Company and its domestic consolidated subsidiaries have defined contribution pension plans for employees.

For part-time employees, the Company and its domestic consolidated subsidiaries have the severance lump-sum payment plan and account for the liability for retirement benefits based on the amount that would be required if all the part-time employees are retired at each balance sheet date.

Furthermore, additional retirement benefits are paid in some cases.

j. **Asset Retirement Obligations—**In March 2008, the ASBJ published ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

k. **Research and Development Costs**—R&D costs are charged to income as incurred.

l. **Leases**—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

(As lessee) Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet.

(As Lessor) Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that are deemed to transfer ownership of the leased property to the lessee be recognized as lease receivables, and that all finance leases that are not deemed to transfer ownership of the leased property to the lessee be recognized as investments in lease.

The Company and its domestic consolidated subsidiaries applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions as permitted under the revised accounting standard.

All other leases are accounted for as operating leases.

m. ***Bonuses to Directors and Audit & Supervisory Board Members—***Bonuses to directors and Audit & Supervisory Board Members are accrued at the end of the year to which such bonuses are attributable.

n. **Construction Contracts**—In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts," and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under this accounting standard, construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

o. ***Income Taxes—***The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

p. ***Foreign Currency Transactions—***All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

q. ***Foreign Currency Financial Statements—***The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

r. ***Derivatives and Hedging Activities—***The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of the high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge foreign currency exposures for export sales and procurement from overseas suppliers. Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

s. ***Per Share Information*****—**Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not presented as the Company has no dilutive securities.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

t. ***Accounting Changes and Error Corrections***—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

u. ***Accounting for Employee Stock Ownership Plan Trust***—Pursuant to the resolution by the meeting of the Board of Directors held on February 4, 2013, the Company has introduced an employee incentive plan ,"Employee Stock Ownership Plan (ESOP) Trust" and "Stock Granting ESOP Trust" (together the "Trust"), for the purpose of improving corporate value for the medium- and long-term perspective.

Acquisition and sales of the Company's shares by the Trust are accounted for under the assumption that the Company and the Trust are the same entity. Accordingly, assets, including the Company's shares owned by the Trust, and liabilities, and profits and loss of the Trust are included in the Company's consolidated balance sheet, consolidated statement of income, and consolidated statement of changes in equity.

At March 31, 2013, ESOP Trust and Stock Granting ESOP Trust held 238 thousand and 306 thousand shares of the Company, respectively.

3. INVESTMENT SECURITIES

Investment securities at March 31, 2013 and 2012, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Non-current:			
Equity securities	¥ 279,241	¥ 278,024	$ 2,969
Total	¥ 279,241	¥ 278,024	$ 2,969

The costs and aggregate fair values of investment securities at March 31, 2013 and 2012, were as follows:

	Thousands of Yen			
March 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 152,217	¥ 77,434	¥ 3,685	¥ 225,966

	Thousands of Yen			
March 31, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 158,878	¥ 73,530	¥ 8,632	¥ 223,776

	Thousands of U.S. Dollars			
March 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 1,619	$ 823	$ 39	$ 2,403

The information of available-for-sale securities which were sold during the year ended March 31, 2013, was as follows:

	Thousands of Yen		
March 31, 2013	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 39,874	¥ 27,774	-

	Thousands of U.S. Dollars		
March 31, 2013	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$ 424	$ 295	-

There were no available-for-sale securities sold during the year ended March 31, 2012.

The impairment losses on available-for-sale equity securities for the years ended March 31, 2013 and 2012, were ¥973 thousand ($10 thousand) and none, respectively.

4. INVENTORIES

Inventories at March 31, 2013 and 2012, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Merchandise and finished products	¥ 411,047	¥ 342,623	$ 4,370
Work in process	424,526	503,240	4,514
Raw materials	602,135	637,419	6,402
Supplies	8,709	10,441	93
Total	¥ 1,446,417	¥ 1,493,723	$ 15,379

5. INVESTMENT PROPERTY

In November, 2008, the ASBJ issued ASBJ Statement No. 20, “Accounting Standard for Investment Property and Related Disclosures” and issued ASBJ Guidance No. 23, “Guidance on Accounting Standard for Investment Property and Related Disclosures.”

The Group has some rental properties such as office buildings in Gifu City. Rental income net of operating expenses for those rental properties was ¥29,770 thousand ($317 thousand) and ¥29,111 thousand for the fiscal years ended March 31, 2013 and 2012, respectively.

In addition, the carrying amounts, changes in such balances, and market prices of such properties are as follows:

Thousands of Yen			
Carrying Amount			Fair Value
April 1, 2012	Increase/ (Decrease)	March 31, 2013	March 31, 2013
¥ 82,957	¥ (13,792)	¥ 69,165	¥ 347,000

Thousands of Yen			
Carrying Amount			Fair Value
April 1, 2011	Increase/ (Decrease)	March 31, 2012	March 31, 2012
¥ 89,099	¥ (6,143)	¥ 82,956	¥ 353,000

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2012	Increase/ (Decrease)	March 31, 2013	March 31, 2013
$ 882	$ (147)	$ 735	$ 3,690

Notes:
1) Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2) Fair values of properties as of March 31, 2013 and 2012, are measured by the Group in accordance with its Real-estate Appraisal Standard.

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2013, principally consisted of bank loans with average interest rate of 0.56%. There were no short-term borrowings at March 31, 2012.

Long-term debt at March 31, 2013 and 2012, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Borrowings from banks due serially to March 2014 with weighted-average interest rates of 1.13 % (2013) and 1.16% (2012)	¥ 381,935	¥ 664,323	$ 4,061
Lease obligations	84,902	99,763	903
Total	466,837	764,086	4,964
Less portion due within one year	(258,352)	(505,291)	(2,747)
Long-term debt, less current portion	¥ 208,485	¥ 258,795	$ 2,217

Annual maturities of long-term debt and lease obligations at March 31, 2013, were as follows:

Year ending March 31	Thousands of Yen	Thousands of U.S. Dollars
2014	¥ 258,352	$ 2,747
2015	70,659	751
2016	53,673	571
2017	43,368	461
2018	39,513	420
2019 and thereafter	1,272	14
Total	¥ 466,837	$ 4,964

The carrying amounts of assets pledged as collateral for long-term debt (including current portion) of ¥ 683,346 thousand ($ 7,266 thousand) at March 31, 2013, were as follows:

	Thousands of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥1,032,542	$10,979

7. LIABILITY FOR RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined contribution pension plans for employees and the severance lump-sum payment plan for part-time employees.

The liability for employees' retirement benefits at March 31, 2013 and 2012, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Projected benefit obligation	¥ 17,000	¥ 15,080	$ 181
Amount recognized as liability	¥ 17,000	¥ 15,080	$ 181

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Service cost	¥ 1,890	¥ 1,575	$ 20
Other	72,000	72,518	766
Net periodic benefit costs	¥ 73,890	¥ 74,093	$ 786

8. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies meeting certain criteria such as; (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all of the above criteria. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Company qualifies for this provision. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥ 3 million.

b Increases / Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The

Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

9. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 37.2% and 39.8% for the years ended March 31, 2013 and 2012, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2013 and 2012, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Deferred Tax Assets:			
Allowance for bad debt	¥ 25,657	¥ 25,907	$ 273
Accrued bonuses	120,627	116,668	1,283
Accrued warranty	22,640	19,096	241
Accrued enterprise tax	9,052	9,942	96
Accrued retirement benefits to directors and Audit & Supervisory Board Members	43,562	46,375	463
Accrued social insurance	17,482	17,105	186
Property, plant and equipment	15,507	20,403	165
Small depreciable property	6,825	8,714	72
Inventories	75,878	46,034	807
Impairment of long-lived assets	11,893	14,778	126
Loss on investment in nonconsolidated subsidiaries	67,558	126,280	718
Amount of tax loss carryforwards	138,844	142,678	1,476
Other	103,130	36,648	1,097
Total	658,655	630,628	7,003
Less valuation allowance	(252,315)	(204,811)	(2,683)
Total deferred tax assets	¥ 406,340	¥ 425,817	$ 4,320
Deferred Tax Liabilities:			
Unrealized gain on available-for-sale securities	¥ 25,664	¥ 22,584	$ 272
Other	82	96	1
Total deferred tax liabilities	¥ 25,746	¥ 22,680	$ 273
Net deferred tax assets	¥ 380,594	¥ 403,137	$ 4,047

Reconciliations between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2013, with the corresponding figures for 2012 were as follows:

	2013	2012
Normal effective statutory tax rate	37.2 %	39.8 %
Expenses not deductible for income tax purposes	3.7	6.7
Per capita tax	2.6	3.1
Net change in valuation allowance	3.4	16.7
Effect of the consolidated corporate tax system	(3.8)	(2.9)
Effect of tax rate reduction	-	6.7
Other - net	1.3	(0.4)
Actual effective tax rate	44.4 %	69.7 %

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 39.8% to 37.2% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 34.8% afterwards.

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs were ¥353,989 thousand ($ 3,764 thousand) and ¥292,837 thousand for the years ended March 31, 2013 and 2012, respectively.

11. LEASES

The Group leases certain machinery, computers, and software.

Pro forma information of leased property whose lease inception was before March 31, 2008

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee and whose lease inception was before March 31, 2008, to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the consolidated financial statements. The Company applied ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008, was as follows:

(As lessee)

	Thousands of Yen			
March 31, 2012	Machinery	Tools	Other	Total
Acquisition cost	¥ 19,980	¥ 7,040	¥ 12,100	¥ 39,120
Accumulated depreciation	19,219	6,649	9,882	35,750
Net leased property	¥ 761	¥ 391	¥ 2,218	¥ 3,370

There were no leases to be disclosed at March 31, 2013.

Obligations under finance leases:

	Thousands of Yen
	2012
Due within one year	¥ 3,502
Due after one year	-
Total	¥ 3,502

Depreciation expense, interest expense, and other information under finance leases:

	Thousands of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Depreciation expense	¥ 3,370	¥ 18,667	$ 36
Interest expense	27	158	0
Total	¥ 3,397	¥ 18,825	$ 36
Lease payments	¥ 3,529	¥ 19,651	$ 38

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statement of income, are computed by the straight-line method and the interest method, respectively.

(As lessor)

Pro forma information of such leases which existed at the transition date on an "as if sold" basis for the years ended March 31, 2013 and 2012, was as follows:

	Buildings and structures		
	Thousands of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Acquisition cost	¥ 102,500	¥ 102,500	$ 1,090
Accumulated depreciation	64,222	60,107	683
Net leasing property	¥ 38,278	¥ 42,393	$ 407

Expected revenue:

	Thousands of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Due within one year	¥ 3,876	¥ 3,876	$ 41
Due after one year	25,840	29,716	275
Total	¥ 29,716	¥ 33,592	$ 316

The amounts of expected revenue under the finance leases include the imputed interest revenue portion.

Lease revenue and depreciation expenses under finance leases:

	Thousands of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Lease revenue	¥ 3,876	¥ 3,876	$ 41
Depreciation expenses	4,115	4,219	44

Expected lease revenues to be received under the noncancelable operating lease subsequent to March 31, 2013 and 2012, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Due within one year	¥ 17,280	¥ 17,280	$ 184
Due after one year	115,536	132,816	1,228
Total	¥ 132,816	¥ 150,096	$ 1,412

12. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly long-term debt including bank loans, based on its management and financing plan. Short-term bank borrowings are used to fund its ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position is hedged by using forward foreign currency contracts. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are five months or less. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged by using forward foreign currency contracts.

Maturities of bank loans and long-term debt are six years or less after the balance sheet date.

Derivatives include forward foreign currency contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Company and its subsidiaries manage their credit risks from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of customers to identify the default risk of customers at an early stage.

Market risk management

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged by forward foreign currency contracts.

Investment securities are managed by monitoring the market values and financial position of issuers on a regular basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets, along with adequate financial planning by the planning and accounting department.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted price in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

	Thousands of Yen		
March 31, 2013	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 649,027	¥ 649,027	-
Time deposits	55,000	55,000	-
Trade notes and accounts receivable	5,084,821	5,084,821	-
Investment securities	225,966	225,966	-
	¥ 6,014814	¥ 6,014,814	-
Short-term bank loans	¥ 750,000	¥ 750,000	-
Trade notes and accounts payable	2,179,124	2,179,124	-
Long-term debt including current portion	466,837	466,327	¥ (510)
Other accounts payable	445,188	445,188	-
Income taxes payable	86,253	86,253	-
	¥ 3,927,402	¥3,926,892	¥ (510)
March 31, 2012			
Cash and cash equivalents	¥ 954,953	¥ 954,953	-
Time deposits	55,000	55,000	-
Trade notes and accounts receivable	5,133,201	5,133,201	-
Investment securities	223,776	223,776	-
	¥ 6,366,930	¥ 6,366,930	-
Trade notes and accounts payable	¥ 2,870,618	¥ 2,870,618	-
Long-term debt including current portion	764,086	764,850	¥ (764)
Other accounts payable	430,294	430,294	-
Income taxes payable	51,640	51,640	-
	¥ 4,116,638	¥ 4,117,402	¥ (764)

March 31, 2013	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 6,901	$ 6,901	-
Time deposits	585	585	-
Trade notes and accounts receivable	54,065	54,065	-
Investment securities	2,403	2,403	-
	$ 63,954	$ 63,954	-
Short-term bank loans	$ 7,974	$ 7,974	-
Trade notes and accounts payable	23,170	23,170	-
Long-term debt including current portion	4,964	4,958	$ (6)
Other accounts payable	4,733	4,733	-
Income taxes payable	917	917	-
	$ 41,758	$ 41,752	$ (6)

Cash and Cash Equivalents, Time Deposits, and Trade Notes and Accounts Receivables

The carrying values of these financial instruments approximate fair value because of their short maturities.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments.

Trade Notes and Accounts Payables, Short-term Borrowings, Other Accounts Payable, and Income Taxes Payable

The carrying values of these financial instruments approximate fair value because of their short maturities.

Long-term Debt Including Current Portion

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group’s assumed corporate borrowing rate.

(b) Financial instruments whose fair value cannot be reliably determined

	Thousands of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Investments in equity instruments that do not have a quoted market price in an active market	¥53,275	¥ 54,248	$ 566
Investments in nonconsolidated subsidiaries	¥61,477	¥ 62,219	$ 654

(5) Maturity analysis for financial assets and securities with contractual maturities

Please see Note 6 for annual maturities of long-term debt.

13. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Net unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 36,625	¥ 3,407	$ 389
Reclassification adjustments to profit or loss	(27,774)	-	(295)
Amount before income tax effect	8,851	3,407	94
Income tax effect	(3,080)	1,871	(33)
Total	¥ 5,771	¥ 5,278	$ 61
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (14,550)	¥ (1,992)	$ (155)
Reclassification adjustments to profit or loss	16,137	50,832	172
Amount before income tax effect	1,587	48,840	17
Income tax effect		(22,437)	-
Total	¥ 1,587	¥ 26,403	$ 17
Total other comprehensive income	¥ 7,358	¥ 31,681	$ 78

14. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2013 and 2012, is calculated as follows:

	Thousands of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net income	Weighted-average shares	EPS	
For the year ended March 31, 2013				
Basic EPS				
Net income available to common shareholders	¥292,890	6,251	¥ 46.9	$ 0.5
For the year ended March 31, 2012				
Basic EPS				
Net income available to common shareholders	¥132,927	6,390	¥ 20.8	

15. SUBSEQUENT EVENTS

The following appropriation of retained earnings at March 31, 2013, was approved at the Company's shareholders' meeting held on June 20, 2013:

Appropriation of retained earnings

	Thousands of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥15 ($0.16) per share	¥ 89,462	$ 951

16. SEGMENT INFORMATION

Under ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments.
Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of three segments: Transport Equipment, Sign and Display, and Industrial Equipment. Transport Equipment segment manufactures and sells system equipments for buses and trains and lighting equipments for vehicles. Sign and Display segment manufactures and sells neon transformers, lighting effect units for outside display, cold cathode lumps, and power supply units for LED. Industrial Equipment segment consists of manufacturing and selling terminal readers, power backup units, and rechargers for battery-driven forklift and board implementation.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit (Loss), Assets and Other Items is as follows.

	Thousands of Yen							
	2013							
	Reportable Segment							
	Transport Equipment	Sign and Display	Industrial Equipment	Total	Other	Total	Reconciliations	Consolidated
Sales								
Sales to external customers	¥ 8,397,672	¥ 1,272,778	¥ 3,764,836	¥13,435,286	¥ 44,720	¥13,480,006	-	¥13,480,006
Intersegment sales or transfers	-	-	-	-	-	-	-	-
Total	¥ 8,397,672	¥ 1,272,778	¥ 3,764,836	¥13,435,286	¥ 44,720	¥13,480,006	-	¥13,480,006
Segment profit (loss)	¥ 476,791	¥ (66,271)	¥ 116,614	¥ 527,134	¥ 471	¥ 527,605	¥ (50,505)	¥ 477,100
Segment assets	5,719,659	770,795	1,549,688	8,040,142	77,526	8,117,668	1,673,701	9,791,369
Other:								
Depreciation	131,705	14,417	54,268	200,390	4,635	205,025	38,788	243,813
Increase in property, plant and equipment and intangible assets	150,364	9,735	32,573	192,672	-	192,672	25,614	218,286

	Thousands of Yen							
	2012							
	Reportable Segment							
	Transport Equipment	Sign and Display	Industrial Equipment	Total	Other	Total	Reconciliations	Consolidated
Sales								
Sales to external customers	¥ 8,035,512	¥ 1,183,496	¥ 3,796,246	¥ 13,015,254	¥ 44,743	¥ 13,059,997	-	¥ 13,059,997
Intersegment sales or transfers	-	-	-	-	-	-	-	-
Total	¥ 8,035,512	¥ 1,183,496	¥ 3,796,246	¥ 13,015,254	¥ 44,743	¥ 13,059,997	-	¥ 13,059,997
Segment profit (loss)	¥ 470,806	¥ (38,871)	¥ 141,000	¥ 572,935	¥ (1,312)	¥ 571,623	¥ (78,272)	¥ 493,351
Segment assets	5,762,040	776,309	1,762,413	8,300,762	83,057	8,383,819	1,963,268	10,347,087
Other:								
Depreciation	154,238	19,078	57,469	230,785	6,143	236,928	38,889	275,817
Increase in property, plant and equipment and intangible assets	101,327	11,137	57,266	169,730	-	169,730	28,839	198,569

	Thousands of U.S. Dollars							
	2013							
	Reportable Segment							
	Transport Equipment	Sign and Display	Industrial Equipment	Total	Other	Total	Reconciliations	Consolidated
Sales								
Sales to external customers	$ 89,290	$ 13,533	$ 40,030	$ 142,853	$ 475	$ 143,328	-	$ 143,328
Intersegment sales or transfers							-	
Total	$ 89,290	$ 13,533	$ 40,030	$ 142,853	$ 475	$ 143,328	-	$ 143,328
Segment profit (loss)	$ 5,070	$ (705)	$ 1,240	$ 5,605	$ 5	$ 5,610	$ (537)	$ 5,073
Segment assets	60,815	8,196	16,477	85,488	824	86,312	17,796	104,108
Other:								
Depreciation	1,401	153	577	2,131	49	2,180	412	2,592
Increase in property, plant and equipment and intangible assets	1,599	104	346	2,049	-	2,049	272	2,321

Note：

Reconciliations principally consist of general and administrative corporate expenses or assets which are not attributable to any reportable segment.

Associated Information

Information about products and services

	Thousands of Yen				
	2013				
	Transport Equipment	Sign and Display	Industrial Equipment	Other	Total
Sales to external customers	¥ 8,397,672	¥ 1,272,778	¥ 3,764,836	¥ 44,720	¥ 13,480,006

	Thousands of Yen				
	2012				
	Transport Equipment	Sign and Display	Industrial Equipment	Other	Total
Sales to external customers	¥ 8,035,512	¥ 1,183,496	¥ 3,796,246	¥ 44,743	¥ 13,059,997

	Thousands of U.S. Dollars				
	2013				
	Transport Equipment	Sign and Display	Industrial Equipment	Other	Total
Sales to external customers	$ 89,290	$ 13,533	$ 40,030	$ 475	$ 143,328

LECIP INC.

CODE OF ETHICS

LECIP Inc. is committed to maintaining the highest standards of ethical conduct and integrity in all areas of our activities. The Company's policy is to conduct its business affairs honestly and in an ethical manner. This Code of Ethics provides a general statement of the expectations of LECIP Inc. regarding the ethical standards that each director, officer and employee should adhere to while acting on behalf of the Company. It does not cover every issue that may arise, but it sets out basic principles to guide all employees, officers and directors of the Company. This Code of Ethics applies to all directors, officers, full and part time employees, and contract workers. Conduct in violation of this policy is unacceptable in the workplace and in any work-related setting outside the workplace.

HONEST AND ETHICAL CONDUCT

All directors, officers and employees of LECIP Inc. are required to perform their duties in an honest and ethical manner.

COMPLIANCE WITH LAWS

You must comply with all federal, state and local laws and governmental regulations applicable to your activities on behalf of LECIP Inc. If a law conflicts with this Code or another Company policy, you must comply with the law; however, if a local custom or policy conflicts with this Code, you must comply with the Code. If you have any questions about the applicability of any law or regulation to your activities, or the legality of your or your colleagues' conduct, you should consult your supervisor or the General Counsel.

CONFLICTS OF INTEREST

In general, it is not the intent of LECIP Inc. to restrict the right of employees to manage their own private affairs. However, an employee assumes certain obligations involving

loyalty and trust when employed by LECIP Inc. These obligations may easily be compromised when a conflict of interest exists. All directors, officers and employees of LECIP Inc. are required to handle all actual or apparent conflicts of interest in an ethical manner.

In general, a conflict of interest exists when an employee's private interests interfere or conflict in any way with the legitimate business interests of LECIP Inc. Examples of actual or potential conflicts of interest include situations where you or a member of your family:

- receive improper personal benefits (including benefits from a customer, supplier or competitor) as a result of your position with LECIP Inc;
- use LECIP Inc. property for your personal benefit;

- have a financial interest in a customer, supplier or competitor that is significant enough to cause divided loyalty with the Company, or the appearance of such divided loyalty;
- acquire an interest in property (including intellectual property) in which you have reason to know LECIP Inc. has, or might have, an interest; or
- make gifts or payments, or provide special favors, to customers or suppliers with a value significant enough to cause them to take an action beneficial to the Company that they would not otherwise have taken.

It is almost always a conflict of interest for a LECIP Inc. employee to work simultaneously for a competitor, customer or supplier. You are not allowed to work for a competitor as a director or consultant. The best policy is to avoid any direct or indirect business connection with our customers, suppliers or competitors, except on the Company's behalf. In addition, employees, officers and directors are prohibited from taking for themselves personally any opportunities that are discovered through the use of corporate property, information or position, except with the consent of the Board of Directors.

Many situations where there is some doubt as to whether a conflict of interest exists can be resolved with proper advice. Conflicts of interest are not always clear-cut. If you are in doubt about any situation and the potential for a conflict of interest, you should discuss the matter with your supervisor.

DISCLOSURE

It is of paramount importance to LECIP Inc. that all disclosure in reports and other documents filed by LECIP Inc. with the Securities and Exchange Commission or in other public communications by LECIP Inc. is full, fair, accurate, timely and understandable. All officers, directors, employees and contract workers must take all steps necessary to assist LECIP Inc. in fulfilling these responsibilities, consistent with each person's role in the Company. You should give prompt, accurate answers to all inquiries in connection with LECIP Inc's preparation of public reports and disclosures.

LECIP Inc's Chief Executive Officer, Chief Financial Officer and Controller (our "Senior Financial Officers") each bear a special responsibility with respect to our public disclosure and communications. Each of our Senior Financial Officers is required to:

- take all necessary steps to ensure full, fair, accurate, timely and understandable disclosure in reports that the Company files with, or submits to, governmental agencies and in other public communications; and
- foster a culture throughout LECIP Inc. that ensures the fair and timely reporting of the Company's results of operations and financial condition and other financial information.

COMPLIANCE

LECIP Inc. is committed to the prompt and consistent enforcement of this Code of Conduct. The Company will ensure that employees, officers and directors may access this Code of Ethics on the Company's website. In addition, each current employee will be provided with a copy of the Code. New employees will receive a copy of the Code as part of their Employee Manual or new hire information. From time to time, the Company will sponsor employee training programs in which the Code and other Company policies and procedures will be discussed.

When an alleged violation of the Code of Ethics is reported, the Company shall take prompt and appropriate action in accordance with the law and regulations and otherwise consistent with good business practice.

Any violation of applicable law or any deviation from the standards embodied in this Code of Ethics will subject you to disciplinary action, up to and including termination of employment. In addition to imposing discipline upon employees involved in non- compliant conduct, the Company also will impose discipline, as appropriate, upon an employee's supervisor, if any, who directs or approves such employees' improper actions, or is aware of those actions but does not act appropriately to correct them, and upon other individuals who fail to report known non-compliant conduct. In addition to imposing its own discipline, the Company will bring any violations of law to the attention of appropriate law enforcement personnel.

Any waiver of a violation of this Code of Ethics by an executive officer or director of LECIP Inc. must be approved by the Company's Board of Directors, and any such waiver and the reasons for such waiver must be promptly disclosed to the public.

The MBTA specification currently requires that the primary suppliers of subsystems delineated in Tab 1.1 to have the following information included in a Bidder's Proposal. We request that you provide this information to us so that it can be incorporated into our submittal. As noted in our cover letter, we are requesting clarification from MBTA regarding the need for this material. We will advise you of their response, but we must currently proceed as if it will be required. We request your return of this information by January 31, 2014.

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.

2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.

3. Provide the names, title and telephone numbers of all officers.

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.

5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.

6. Have any of the business owners, shareholders, or officers every been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.

7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.

8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity.

12. Provide the business's current code of business ethics or equivalent.

13. Provide the responses to Questions Nos. 1 through 12 for all proposed suppliers of major subsystems identified in response to Tab I.1 – Technical Approach.

MEPPI Responses:

1. See the attached
2. MEPPI is wholly owned subsidiary of MELCO (Mitsubishi Electric Co., Japan). MELCO is publicly traded company. Company website is: http://www.mitsubishielectric.com/index.html
3. Mr. Brian Heery, CEO (724) 778-3111; Mr. Masahiro ("Max") Oya, Executive VP (724) 778-3114; Mr. Bruce Hampton, Senior VP & CFO (724) 778-5150
4. No
5. No
6. No
7. Yes, see the enclosed letter for details
8. MARSH, James Kofmehl -Client Executive (213) 346-5725
9. PNC Bank, Pittsburgh PA 15265 (215) 749-6199; Meramec Electric Products, Co. Cuba, MO (573)885-2521; A & L Precision Products, Murrysville PA 15668 (724) 733-4900
10. None
11. See response to #2. Financial statements are available on MELCO corporate website
12. Attached

The Commonwealth of Massachusetts

Secretary of the Commonwealth

State House, Boston, Massachusetts 02133

William Francis Galvin
Secretary of the
Commonwealth

Date: February 27, 2014

To Whom It May Concern :

I hereby certify that according to the records of this office,

MITSUBISHI ELECTRIC POWER PRODUCTS, INC.

a corporation organized under the laws of

DELAWARE

on **November 20, 1985** was qualified to do business in this Commonwealth on

February 03, 2014 under the provisions of the General Laws, and I further certify that said

corporation is still qualified to do business in this Commonwealth.

I also certify that said corporation is not delinquent in the filing of any annual reports required to

date.

In testimony of which,
I have hereunto affixed the
Great Seal of the Commonwealth
on the date first above written.

William Francis Galvin

Secretary of the Commonwealth

Certificate Number: 14026079110

Verify this Certificate at: http://corp.sec.state.ma.us/CorpWeb/Certificates/Verify.aspx

Processed by: tad

MITSUBISHI ELECTRIC POWER PRODUCTS, INC.

530 Keystone Drive
Warrendale, PA 15086-7538
PHONE: (724) 778-5111
FAX: (724) 778-5149

Ms. Zhang Wenting
Shanghai Jia Industrial Co., LTD.
RM.702, Tong Quan Tower
678 Gubei Road
Shanghai, China

RE: RFP NO. CAP 27-10 New Orange & Red Line Vehicles

Dear Ms. Zhang Wenting,

We are writing this letter to supplement or clarify our answers to the following two questions in Section B, Part B – Qualifications and Certifications of the RFP:

6. Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state or local law? If so, please describe the circumstances.

7. Are there any pending recent law suits against the business or any of its owners or shareholders? If so, please describe the circumstances.

Our answer to Question 6 is "NO." This is based on our understanding of the words "business owners" or "shareholders" to mean our parent corporation. For your information, Mitsubishi Electric Power Products, Inc. ("MEPPI") is owned 100% by Mitsubishi Electric US Holdings, Inc. ("MEUH"). MEUH is in turn owned 100% by Mitsubishi Electric Corporation of Tokyo, Japan ("MELCO"). For purposes of Question 6, we answered with reference to MEUH, our owner, not MELCO. In the interests of full disclosure, the answer would be "YES" if we were answering Question 6 with reference to MELCO. On November 6, 2013 MELCO entered into a plea agreement whereby it pled guilty to one count of violating US antitrust laws. This plea agreement arose out of the US Department of Justice's investigation of the automotive components industry.

Our answer to Question 7 is "YES." A number of civil actions have been filed in connection with the DOJ's investigation of the automotive components industry. MEUH is a defendant in the following actions in the US District Court for the Eastern District of Michigan:

- **Martens Cars of Washington, et al. v. Denso Electric Manufacturing Co., Ltd.,** et al., including Mitsubishi Electric US Holdings, Inc. [Civil Case 1314202]
- **Ifeoma Adams et al. v. Diamond Electric Manufacturing** et al., including Mitsubishi Electric US Holdings, Inc. [1314173]
- **Jerry McDaniel et al. v. Denso Electric Manufacturing Co.,** Ltd. et al., including Mitsubishi Electric US Holdings, Inc. [Civil Case 1314660]

Should you have any questions, kindly let me know.

Very truly yours,

Timothy J. Logan
General Manager
Transportation Systems Division

Financial Highlights

Performance for the year ended March 31, 2013

Years ended March 31	2013	2012	2011	2013
	Yen (millions)			U.S. dollars (thousands)
Net sales	¥3,567,184	¥3,639,468	¥3,645,331	$37,948,766
Operating income[2]	152,095	225,444	233,761	1,618,032
Net income attributable to Mitsubishi Electric Corp.	69,517	112,063	124,525	739,543
Total assets	3,410,410	3,391,651	3,332,679	36,280,957
Interest-bearing debt	540,572	542,291	484,352	5,750,765
Mitsubishi Electric Corp. shareholders' equity	1,300,070	1,132,465	1,050,340	13,830,532
Capital expenditures	150,425	159,346	107,638	1,600,266
R&D expenditures	172,222	169,686	151,779	1,832,149
			Yen	U.S dollars
Per-Share Amounts				
Net income attributable to Mitsubishi Electric Corp.				
Basic	¥32.38	¥52.20	¥58.00	$0.344
Diluted[3]	—	—	—	—
Cash dividends declared	11	12	12	0.117
			%	
Statistical Information				
Operating income ratio	4.3%	6.2%	6.4%	—
Return on equity (ROE)	5.7	10.3	12.4	—
Interest-bearing debt to total assets	15.9	16.0	14.5	—

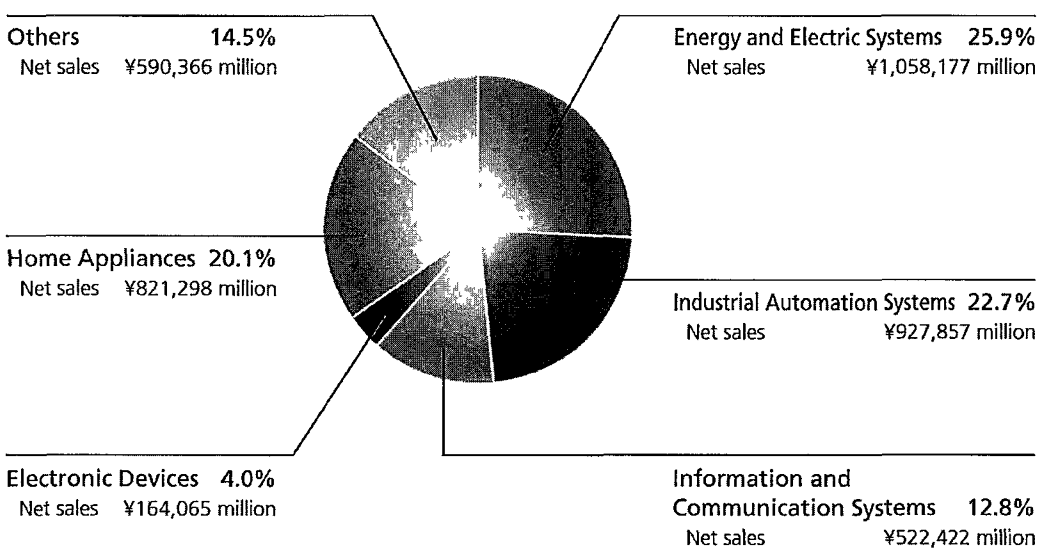
See accompanying notes to consolidated financial statements.

1 The Company prepares consolidated financial statements with procedures, accounting terms, forms, and preparation that are in conformity with accounting principles generally accepted in the United States of America based on the rules and regulations applicable in Japan.

2 Operating income is presented as net sales less cost of sales, selling, general, administrative and R&D expenses, and loss on impairment of long-lived assets

3 Diluted net income per share attributable to Mitsubishi Electric Corp. is not included in the above figure as no dilutive securities existed

Net Sales Breakdown by Business Segment



MITSUBISHI ELECTRIC POWER PRODUCTS, INC.

530 Keystone Drive
Warrendale, PA 15086-7538
PHONE: (724) 778-5111
FAX: (724) 778-5149

I. Introduction

MEPPI is committed to the highest standards of business ethics and legal compliance. This commitment encompasses our relationships with customers, suppliers and competitors and with each other as employees at every organizational level.

It is the policy of MEPPI to require strict observance of and compliance with both the letter and spirit of all laws governing the conduct of the company's businesses. Laws affecting the conduct of MEPPI have grown in number and complexity. However, our employees are expected to have a general knowledge of the laws and regulations that apply to their work. This policy also imposes on MEPPI employees a higher standard of ethical conduct than mere compliance with the law. In all of their dealings with others, MEPPI employees are required to exercise the highest degree of honesty and integrity.

This commitment and the responsibilities it entails are summarized in this policy. This policy is not intended to address every legal compliance or ethical situation which may confront employees. Employees are asked to read MEPPI's Employee Handbook and related policies for further details and information and to discuss any concerns they may have with their supervisor, Human Resources, any member of the company's Legal Compliance Committee or the MEUS Legal Department.

Compliance with this policy and the company's legal compliance program is mandatory, including adherence to all records hold notices (see Records Retention section), participation in scheduled legal training and providing required acknowledgements. MEPPI requires employees to acknowledge annually that they have received and reviewed this policy and that they understand and agree to abide by all aspects of the policy and the company's legal compliance program.

Employees are encouraged to share these values with third parties with whom the company does business.

II. Our Mission

As part of the Mitsubishi Electric global family of companies, we are committed to advancing society through the supply of equipment and services that enable North America's electric, water, transportation, and communications infrastructures to grow and to operate safely, reliably, and economically.

III. Our Vision

We are committed---

- To be the supplier that provides our customers the best total value in the changing 21st Century business environment
- To be a good employer and corporate citizen of the communities in which we reside and work
- To be a profitable and growing part of Mitsubishi Electric's global business

IV. Our values

All of MEPPI's policies, including this Code of Ethics, stem from our core values. As our values bind us together as an organization, it is our intention to have our decisions and actions demonstrate these values.

- **Quality.** We are committed to quality. We will not be satisfied with past successes, but will use them to build for the future. We will deliver excellence, continuously improve and respond to change.

- **Customers.** We are committed to customer satisfaction. We believe in putting the customer's needs first by promoting a customer-centered culture that emphasizes outstanding service and commitment.

- **Integrity.** We recognize that integrity is fundamental to our success. By acting with integrity in all that we do, we strive to be personally accountable for high standards of behavior in all aspects of our work.

- **MEPPI people**. We value MEPPI people. We believe that our employees are the source from which our ideas, actions and performance flow. The full potential of our people is best realized in a diverse environment that breeds respect, equality, fairness, self-fulfillment, teamwork and dedication to excellence.

- **Community**. We are committed to being socially responsible corporate citizens. We encourage our employees to contribute their time and talent to worthwhile civic and charitable projects and organizations.

No one, regardless of level or position, is ever authorized to commit or to ask an employee or contractor to commit an illegal act or to violate this policy. Employees may not engage in conduct or activities that may raise questions as to MEPPI' or any employee's honesty, integrity or impartiality or which could otherwise embarrass or damage the company's reputation.

SECTION B
PART B TECHNICAL PROPOSAL AND STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

CERTIFICATION REGARDING DEBARMENT, SUSPENSION AND OTHER RESPONSIBILITY MATTERS FOR LOWER TIER PARTICIPANT

The Lower Tier Participant certifies by submission of this proposal, that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any Federal, State or local department or agency.

When the Lower Tier Participant is unable to certify to any of the statements in this certification, such Participant shall attach an explanation to this proposal.

THE LOWER TIER PARTICIPANT CERTIFIES OR AFFIRMS THE TRUTHFULNESS AND ACCURACY OF THE CONTENTS OF THE STATEMENTS SUBMITTED ON OR WITH THIS CERTIFICATION.

LOWER TIER PARTICIPANT: ____________________

AUTHORIZED SIGNATURE: ____________________

NAME (PRINTED): Timothy J. Logan

TITLE: General Manager
Transportation Systems Division
Mitsubishi Electric Power Products, Inc.

DATE: ____________________

New Orange and Red Line Vehicles
RFP No. CAP 27-10
Section B-60 – B-61

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts
    a. See attached Certificate of Good Standing dated April 9, 2014 from The Secretary of State of the Commonwealth of Massachusetts.

2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.
    a. Lena Walsh, Principal/Owner, 617-771-6167
    b. William Hennigan, Operations/Manager, 617-699-8255

3. Provide the names, title and telephone numbers of all officers.
    a. N/A

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA. If yes, please describe relationship.
    a. We are currently installing the IP based CCTV solution on 450 NABI & New Flyer vehicles; manufacture of vehicle wire harnesses, create drawing and install procedures
    b. We currently maintain, service, and repair smart vehicle (AVL/APC) systems, support for ADA compliance on 1200 NABI, New Flyer and Nova vehicles
    c. We currently service and repair hand scanner IP data management equipment.
    d. We currently supply the MBTA with Harris communications equipment, and ISC applied systems communication equipment.
    e. We are currently supplying and installing the HVAC system on the overhaul of 192 Neoplan vehicles.
    f. Provide thermo management system products.
    g. Repair and calibrate CRT modules.
    h. Repair Thermo King drive modules.
    i. Supply, repair and rebuild SKODA components.
    j. Install, service, and support of Retail Sales Terminals for revenue collection

5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.
    a. No

6. Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.
    a. No

7. Are there any pending recent law suits against the business or any of its owners, or shareholders? If yes, please describe circumstances.
    a. No

8. Prove the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the solicitation documents.
    a. Michelle A. Lord, ARM, CIC - Eastern Insurance Group LLC,
       265 Franklin Street, BOS 212, Boston, MA 02210
       (508) 620-3411

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.
    a. See attached

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?
    a. No

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the offeror. If the offeror is a joint venture of other combination of business entities, provide the last three (3) years audited financial statements for each entity.
    a. See attached

12. Provide the business's current code of business ethics or equivalent.
    a. N/A

The Commonwealth of Massachusetts
Secretary of the Commonwealth
State House, Boston, Massachusetts 02133

William Francis Galvin
Secretary of the
Commonwealth

April 9, 2014`

TO WHOM IT MAY CONCERN:

I hereby certify that a certificate of organization of a Limited Liability Company was filed in this office by

RL CONTROLS, LLC

in accordance with the provisions of Massachusetts General Laws Chapter 156C on **March 7, 2006.**

I further certify that said Limited Liability Company has filed all annual reports due and paid all fees with respect to such reports; that said Limited Liability Company has not filed a certificate of cancellation or withdrawal; and that said Limited Liability Company is in good standing with this office.

I also certify that the names of all managers listed in the most recent filing are: **LENA WALSH**

I further certify, the names of all persons authorized to execute documents filed with this office and listed in the most recent filing are: **LENA WALSH**

The names of all persons authorized to act with respect to real property listed in the most recent filing are: **LENA WALSH**

In testimony of which,
I have hereunto affixed the
Great Seal of the Commonwealth
on the date first above written.

William Francis Galvin

Secretary of the Commonwealth

Processed By:sam

CREDIT INFORMATION

Contacts - Required

	A/P Contact:	Buyer Contact
Name:	Colleen Fonseca	Colleen Fonseca
Phone #:	781-932-3349	781-932-3349
Fax #:	781-932-3359	781-932-3359
Email:	colleen@rlcontrols.com	colleen@rlcontrols.com

References - (Minimum - 1 Bank reference and 3 Trade references)

	BANK	TRADE # 1
Name:	Sovereign Bank	Cummings Properties
Address:	19 Pleasant St.	200 West Cummings Park
City, State, Zip:	Woburn, MA 01801	Woburn, MA 01801
Email:	cbyrne@sovereignbank.com	N/A
Phone:	617-549-4254	
Fax:	781-935-7973	781-935-1990 (Bill Grant)
Country:	USA	USA

	TRADE # 2	TRADE # 3
Name:	Lawson Products	Midwest Bus Corporation
Address:	8801 W. 47th	1930 West Stewart Street
City, State, Zip:	McCook, IL 60525	Owosso, MI 48867
Email:	allison.lemberg@lawsonproducts.com	juliev@midwestbus.com
Phone:	773-304-5730	989-723-5241
Fax:	888-770-77320	989-725-2712
Country:	USA	USA

REQUIRED: By signing this credit information form, the customer certifies that all of the information contained in this form together with any additional financial information provided by customer to vendor is complete and accurate. I am also acknowledging that the vendor may rely on the information in this form and that based on this information, the vendor is going to perform a credit review in order to extend credit to the customer listed above.

Colleen Fonseca - Project Manager

Name and Title (*Electronic Signature - Type Name and Title)*

4/11/2014

Date

R L Controls, LLC

Statements of Income
For the Six Months ended June 30, 2013 and
For the years ended December 31, 2012, 2011 and 2010

	Six Months ended June 2013		2012		2011		2010	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Service revenue	$ 1,100,354	79.8 %	$ 578,140	36.0 %	$ 1,312,421	49.0 %	$ 1,822,254	59.7 %
Repair & other revenue	277,687	20.2	1,028,847	64.0	1,363,638	51.0	1,228,943	40.3
Total net revenue	1,378,041	100.0	1,606,987	100.0	2,676,059	100.0	3,051,197	100.0
Direct cost of service	779,771	56.6	1,200,871	74.7	1,220,214	45.6	2,099,544	68.8
Gross profit	598,270	43.4	406,116	25.3	1,455,845	54.4	951,653	31.5
Selling & administrative expenses	210,622	15.3	439,234	27.3	450,988	16.9	350,063	11.5
Guaranteed payments to partners	119,850	8.7	225,600	14.0	253,800	9.5	210,596	6.9
Depreciation expense	21,050	1.5	42,875	2.8	34,887	1.3	15,870	0.5
Total operating expenses	351,522	25.5	707,709	44.1	739,675	27.6	576,529	18.9
Net income from operations	246,748	17.9	(301,593)	(18.8)	716,170	26.8	375,124	12.3
Other income (expense):								
Interest expense	(7,643)	(0.6)	(9,435)	(0.6)	(7,430)	(0.3)	(6,562)	(0.2)
Net income (loss)	$ 239,105	17.3 %	$ (311,028)	(19.4) %	$ 708,740	26.5 %	$ 368,562	12.1 %

R L Controls, LLC

Balance Sheets
June 30, 2013 and December 31, 2012, 2011, 2010

Assets

	June 30, 2013	2012	2011	2010
Current assets:				
Cash	$ 42,237	$ 39,745	$ 45,739	$ 53,587
Accounts receivable	419,893	318,603	717,581	291,705
Prepaid expenses	8,718	7,150	----	----
Total current assets	470,848	365,498	763,320	345,292
Fixed assets:				
Property & equipment	234,315	234,315	234,315	118,472
Less: accumulated depreciation	139,815	121,792	78,918	44,031
Net property and equipment	94,500	112,523	155,397	74,441
Other assets:	11,649	11,649	11,649	11,649
Total assets	$ 576,997	$ 489,670	$ 930,366	$ 431,382

R L Controls, LLC

Balance Sheets
June 30, 2013 and December 31, 2012, 2011, 2010

Liabilities and Members' Equity

	June 30, 2013	2012	2011	2010
Current liabilities:				
Demand note payable	$ 228,780	$ 259,780	$ 97,780	$ 40,750
Current portion of long term debt	35,580	35,580	34,601	13,133
Accounts payable	3,115	21,875	19,992	133,420
Accrued expenses	35,771	10,251	35,992	35,481
Total current liabilities	303,246	327,486	188,365	222,784
Long term liabilities:				
Notes payable	47,695	67,594	101,874	41,463
Members' equity:				
Members' equity	226,056	94,590	640,128	167,135
Total liabilities and members' equity	$ 576,997	$ 489,670	$ 930,367	$ 431,382

10V Gill Street
Woburn, MA 01801
P: (781) 932-3349 F: (781) 932-3359

Code of Ethics: RL Controls, LLC (RLC) is a small growing business. We require all our employees to follow these guidelines.

Ethics Mission Statement: To treat all with respect, honesty and integrity. This includes, company resources and property, customers and customer properties and other employees at RLC.

External to RLC

1. Interacting with a customer should be a positive experience; an RLC employee needs to be courteous and helpful at all times. They are to communicate their needs at all times.
    a. The customer is our livelihood and every employee is expected to have the utmost respect and meet the needs of the customer.
    b. You are there to support the needs of the customer and there is always a solution. Ask if you need immediate help, it is always available to you. "Treat the customer, as you would expect to be treated."
    c. Answer all emails in a timely manner; provide relevant information or response with your full contact information. If need be, add the cc of a person that is being brought in to help in response, it's about the needs of a customer and acknowledge why they are now included.
    d. All documentation is the property of RLC and cannot be disseminated or reused outside of RLC without written permission. We maintain privacy agreements with customers. An employee may not be aware, or need to be, as not all information is disclosed as a matter of company policy and is decided on a case-by-case basis by management.
2. Managers and employees are to seek guidance when uncertain as to the best practice to provide a response to a customer that could impact the project/work performance or the reputation of the company.
    a. There is always a positive response, even when it's not immediate, don't feel pressured.
    b. Provide timely communication in writing, don't always assume the conversation will be remembered, and is not considered the final decision in most cases, "do not assume." When resources of the company are required, the need is to be submitted in writing for approval.

Internal to RLC

3. Employees are to interact with their manager(s) or with mangers permission if they are not clear as to what is required of them or if they need information relative to their employment at RLC.
    a. RLC is a small growing company and values the controlled input of their employees.
4. Internet usage has become a valuable tool and provides great benefit to all. It is expected that employees will use the Internet appropriately when on company time and equipment.
5. Treating each other with respect, honesty and integrity.
    a. Respect and provide personal space when needed and articulate the need to communicate when it impacts the work environment.
    b. Cooperation is expected from employees on knowing the value of good working relationships with each other, our customers and the benefits of having camaraderie with respect for a healthy working environment.

Each employee has an obligation to adhere to the standards and report to the management if the expectations can't or are not being met. They are required to sign, and a copy is maintained within their history folder.

SECTION B
PART B TECHNICAL PROPOSAL AND STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

NOTE: The Authority reserves the right to audit compliance with respect with each of required statements and certifications in the forms submitted by Offerors, including but not limited to the Domestic U.S. Content Certification, Domestic U.S. Content Worksheet, and Final Assembly of Production (Non-Pilot) Vehicles in Massachusetts.

Questions Concerning Eligibility

Provide short answers (and attach relevant documents) to the following questions and requests:

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.

   A:N/A

2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.

   A: SAFT is a publicly held corporation.

3. Provide the names, title and telephone numbers of all officers.

   A: See attachment 1

4. Has the business or an owner of shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.

   A: N/A

5. Has the business owners, shareholders, or officers ever been in default of any obligations under a contract with MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.

   A: N/A

6. Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state of local laws? If yes, Please describe the circumstances.

   A: N/A

7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.

   A: N/A

8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

   A: N/A

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

   A. N/A

10. Has the business or any of the business's owners of shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?

    A: N/A

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, probed the last three (3) years audited financial statements for each entity.

    A: See attachment 2

12. Provide the business's the current code of business ethics or equivalent.

    A:See attachment 3

Saft Ltd. Attachment 1

Name	Date appointed	Date of renewal	Date of end of term of office	Other activities and other main offices held
John Searle Chairman	23 March 2005	7 May 2013	6 May 2015	Chairman and Managing Director of Saft SAS, Director of Saft Finance Sarl, Director of Saft America Inc., Chairman of Saft Ltd., Chairman of Tadiran Batteries Ltd., Chairman of Aérospatiale Batteries (ASB), Director of MSB, an ASB subsidiary.
Thomas Alcide	22 April 2005	7 May 2013	6 May 2015	General Manager of SBG division, Chairman and CEO of Group's subsidiaries: Saft America Inc., Saft Federal Systems Inc., Florida Substrate Inc., Saft JV Holding Co., Saft Zhuhai (FTZ) Batteries Co. Ltd.
Bruno Dathis	5 May 2008	7 May 2013	6 May 2015	Chief Financial Officer Director of Saft Finance Sarl.
Xavier Delacroix	11 January 2007	7 May 2013	6 May 2015	General Manager of IBG division, Chairman of Saft Ferak AS Supervisory Board, Chairman of the Board of Directors of Amco-Saft India Ltd. and of Saft AB, Director of Saft Baterias SL.
Elizabeth Ledger	22 April 2005	7 May 2013	6 May 2015	Director of Communications.

PRESS RELEASE

Annual sales growth of 7.5%
at constant perimeter and exchange rates.
Net income up 5.2% to €36.5 million.

Paris, 18 February, 2014 – Saft, leader in the design and manufacture of advanced technology batteries for industry, announces its fourth quarter and annual sales along with its earnings for the period ending 31 December 2013.

2013 Key figures

- Full year sales of €624.2 million, an increase of 4.4% on a reported basis. At constant perimeter and exchange rates, growth in 2013 was 7.5%.
- 2013 EBITDA amounted to €92.5 million, down 9.8% compared to 2012.
- Net income of €36.5 million, up 5.2% compared to 2012.
- Earnings per share of €1.44 compared with €1.38 as reported in 2012.
- An ordinary dividend of €0.78 per share will be proposed at the Annual General Meeting, an increase of 4.0%.

2014 Outlook

- 2014 sales to be in the range of €660-700m.
- EBITDA to be in the range of €102-108m.

John Searle, Chairman of the Management Board, commented:

"The company had very strong sales growth during H2 and overall I am very satisfied with the Group's sales performance in 2013 despite the slow start to the year. Many of our business gained market share notably in the telecom and transportation markets. This growth was seen in our Industrial Battery Group division whilst Specialty Battery Group division was faced with weak defence markets and challenges in the US civil electronics market. Nevertheless aside from the defence market the Specialty Battery Group division business made steadily sales progress through the year.

The profitability of Saft recovered strongly in H2 on the back of growing volumes in Industrial Batteries which sharply reduced losses in our new Li-ion factories, in line with our break even objective for 2014.

For this year, I see continued strong sales growth leading to improved profitability. Industrial Batteries will continue to be the main growth driver but I expect the Specialty Battery division to return to growth on the back of steadily improving sales in the civil electronics and space markets. In addition, the defence market should start to stabilise during the year. Saft is faced with favourable comparables in H1 and a more challenging H2.

I am confident the company is well positioned to succeed in 2014 and beyond."

Full year consolidated results

(in € million)	Restated			Reported		
	2013	**2012(1)**	**YoY Growth(1)**	**2013**	**2012(2)**	**YoY Growth(1)**
Revenue	624.2	592.8	*7.5%*	624.2	598.0	*6.5%*
Gross profit	170.8	175.4	*(2.6)%*	170.8	176.0	*(3.0)%*
Gross profit margin (%)	*27.4%*	*29.6 %*		*27.4%*	*29.4 %*	
EBITDA	92.5	102.3	*(9.6)%*	92.5	102.5	*(9.8)%*
EBITDA margin (%)	*14.8%*	*17.3%*		*14.8%*	*17.1 %*	
EBIT	54.5	69.8	*(21.9)%*	54.5	69.8	*(21.9)%*
EBIT margin (%)	*8.7%*	*11.8%*		*8.7%*	*11.7%*	
Operating profit	61.1	69.3	*(11.8)%*	61.1	69.3	*(11.8)%*
Net profit from continuing operations	41.7	42.0	*(0.7)%*	41.7	42.0	*(0.7)%*
Net profit/(loss) from discontinued operations	(5.2)	(7.3)	N.S.	(5.2)	(7.3)	N.S.
Net profit for the period	36.5	34.7	*5.2%*	36.5	34.7	*5.2%*
EPS *(€ per share)*	1.44	1.38	*4.3%*	1.44	1.38	*4.3%*
EPS from continuing operations *(€ per share)*	1.64	1.67	*(1.8)%*	1.64	1.67	*(1.8)%*

(1) Excluding non-recurring sales to Johnson Controls Inc. of €5.2 million.

(2) 2012 financial statements have been restated to apply revised IAS 19 standard on pensions. Financial impacts of the retrospective application of that standard from 1st January 2013 are described in note 2.1 to the consolidated financial statements.

Numbers and variations are at actual exchange rates, except for the change in revenue which is measured at constant exchange rates.

The average exchange rate in 2013 was €1 to US$1.33 (compared with €1 to US$1.28 in 2012).

2013 consolidated financial statements approved by the Saft Groupe SA Management Board have been reviewed by the Supervisory Board on 14 February 2014. These consolidated financial statements have been certified by the Group's auditors on 17 February 2014.

Full year results by product line

	Year ended December 31, 2013				Year ended December 31, 2012		
	Sales (€m)	Variations (%)	EBITDA (€m)	EBITDA margin (%)	Sales[1] as restated (€m)	EBITDA[1] as restated (€m)	EBITDA margin (%)
IBG	367.9	19.2 %	38.8	10.5%	315.3	33.7	10.7%
SBG	256.3	(5.8)%	59.1	23.1%	277.5	70.4	25.4%
Other[2]	-	-	(5.4)	n.a.	-	(1.8)	n.a.
Total	**624.2**	**7.5%**	**92.5**	**14.8%**	**592.8**	**102.3**	**17.3%**

(1) *Sales for 2012 financial period exclude €5.2m of non-recurring sales to Johnson Controls Inc. Consequently, EBITDA has been adjusted by €(0.2)m. 2012 EBITDA has also been restated to apply revised IAS 19 standard on pensions. Financial impacts of the retrospective application of that standard from 1st January 2013 are described in note 2.1 to the consolidated financial statements.*

(2) *The "Other" cost centre includes the cost of corporate support services, i.e. primarily IT, research, corporate management, finance and administration.*

All data contained in the table above are expressed at current exchange rates, except for changes in sales that are expressed at constant exchange rates.

The average exchange rate in 2013 was €1 to US$1.33 (compared with €1 to US$1.28 in 2012).

Fourth quarter sales

In the fourth quarter of 2013, sales amounted to €186.1 million, up 12.3% at constant perimeter and exchange rates. On a reported basis, the increase in sales was 9.5% compared to the fourth quarter of 2012.

	Q4 2013	Q4 2012[1]	Variations in%	
			At actual exchange rates	At constant exchange rates
IBG	117.4	93.9	25.0%	28.1%
SBG	68.7	76.1	(9.7)%	(7.3)%
Total	**186.1**	**170.0**	**9.5%**	**12.3%**

(1) Excluding non-recurring sales to Johnson Controls Inc. of €1.4m.

Sales numbers are at actual exchange rates.
The average exchange rate in Q4 2013 was €1 to US$1.36 (compared with €1 to US$1.30 in Q4 2012).

Industrial Battery Group (IBG)

For the full year, sales of Industrial Battery Group grew by 19.2% at constant rates to €367.9m, with a sharp acceleration in the second half, up 31.3% at constant rates (with a 28.1% growth in Q4).

The stationary back-up power business grew by 20.6%. The telecom business generated the growth due to strong demand from the US and a key project in India for Li-ion batteries. Thus in Q4, the stationary back-up power sales grew by 17.3% thanks to high demand for both nickel and Li-ion batteries.

The industrial standby power activity grew in line with the market, but the emerging energy storage business was slightly lower than 2012. In Q4, the industrial standby power business had sales lower than prior year due mainly to challenging comparables. The lack of contracts from prior quarters resulted also in reduced sales in the energy storage market with utilities for the quarter, but some important contracts worth more than €10.0m have been signed during the period, providing backlog for 2014.

The transportation market had full year sales growth of 10.7%, with strong growth of both aviation and rail batteries. The performance in the rail was strong throughout the year whilst the aviation activities had good growth during H2 due to strong demand from aviation OEMs and the US military. In Q4, the transportation activity recorded very strong growth of 36.3% helped by the timing of the delivery of rail contracts, notably in North America and Asia.

Finally sales of electrodes totalled €9.9m in 2013, principally to Arts Energy.

For the full year, the EBITDA of the Division increased by 15.1% to €38.8m with a stronger performance in H2. A combination of high demand for nickel batteries and for Li-ion batteries improved the profitability in most factories, particularly in the Jacksonville and Nersac factories where losses reduced sharply as a result of improved overhead recovery.

Specialty Battery Group (SBG)

For the full year, sales of Specialty Battery Group were €256.3m, which represented a reduction of 5.8% compared with 2012. However, the decline has slowed in the second half of the year, with a H2 down 2.4% at constant exchange rates (7.3% decreases in the fourth quarter).

Despite a very weak start to the year, the civil electronics activity finally achieved a small growth of 0.3% during the year. The overall performance was impacted by a poor performance in the US with reduced volumes from a small number of key clients. Elsewhere, the business performed well and had growth beyond historical levels. During Q4, sales of batteries to the civil electronics market grew by 1.9%, due to on-going strong growth in China and an expanded client base in Europe.

The space and defence activity had sale 14.3% below 2012. This reduction was due to lower demand for radio batteries and torpedo batteries from a number of historical clients, whilst new projects for Li-ion batteries continued to grow. The space market was weak in H1, and despite a strong H2, the overall sales were slightly below 2012. During Q4, space and defence market sales were 17.9% below prior year. This activity suffered from very unfavourable comparables as during Q4 2012 some major defence contracts were delivered. The space business in contrast had a strong quarter.

For the full year, the EBITDA of the division was €59,1m, a reduction 16.1% from 2012, due largely to the reduced sales but also due to an expected reduction in margin after an exceptional level of profitability in 2012. The divisional profitability was also impacted by unfavourable exchange rates, especially during H2.

Other highlights of 2013 financial results

After factoring in the cost of support activities and increased depreciation and amortization of €5.3m to €38.0m, Group operating profit amounted to €61.1m in 2013, showing a decrease of 11.8% compared to 2012.

The net financial expense in FY 2013 was €10.5m, a decrease of €2.1m on 2012. This reduction in net finance costs resulted from a decrease of net interest costs of €1.2m, and a reduction of €1.2m of foreign exchange losses of €1.2m.

Net profit from continuing operations was €41.7m in 2013, stable as compared with a 2012 net profit of €42.0m. This result includes Saft's share in increased net profit of the ASB joint-venture at €1.5m.

Net loss from discontinued operations for 2013 was €(5.2)m from the sale of the Small Nickel Battery activity.

Finally, the Group's net profit for FY 2013 totalled €36.5m, compared with a net profit of €34.7m in 2012, with an increase of 5.2%.

Stable cash generation from activities at €54.2m and a slight increase in investments at €56.9m, Saft ended 2013 with a strong cash position of €101.4m, leaving the Group with full flexibility for the future. The Group's net debt at 31 December 2013 stood at €111.6m compared with €103.0m at the end of 2012.

This strong balance sheet enables Saft to propose an ordinary dividend of €0.78 per share, an increase of 4.0% YoY.

Financial calendar for 2014

2014 Q1 turnover	**24 April 2014**
Annual General Meeting	**12 May 2014**
2014 Q2 turnover and half year	**23 July 2014**
2014 Q3 turnover	**23 October 2014**

An investor and analysts' presentation is available on www.saftbatteries.com.

IMPORTANT LEGAL INFORMATION AND CAUTIONARY STATEMENTS

Certain statements contained herein are forward-looking statements including, but not limited to, statements that are predictions of or indicate future events, trends, plans, objectives or results of operation. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and Saft's plans and objectives to differ materially from those expressed or implied in the forward looking statements.

About Saft

Saft (Euronext: Saft) is a world leading designer and manufacturer of advanced technology batteries for industry. The Group is the world's leading manufacturer of nickel batteries and primary lithium batteries for the industrial infrastructure and processes, transportation, civil and military electronics' markets. Saft is the world leader in space and defence batteries with its Li-ion technologies which are also deployed in the energy storage, transportation and telecommunication network markets. More than 3,800 employees in 18 countries, 14 manufacturing sites and an extensive sales network all contribute to accelerating the Group's growth for the future.

Saft batteries. Designed for industry.

www.saftbatteries.com

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APPENDICES

- **Consolidated income statement**
- **Consolidated statement of comprehensive income**
- **Consolidated statement of cash flows**
- **Consolidated statement of financial position**
  - **Assets**
  - ***Liabilities***
- **Statement of changes in equity**

Consolidated income statement

(in € million)	2013	2012[(1)] Restated	2011[(1)] Restated
Revenues	624,2	598,0	577,4
Cost of sales	(453,4)	(422,0)	(396,5)
Gross profit	**170,8**	**176,0**	**180,9**
Distribution and sales costs	(40,6)	(39,4)	(36,5)
Administrative expenses	(47,4)	(42,4)	(41,9)
Research and Development expenses	(28,3)	(24,4)	(21,6)
Restructuring costs	0,5	(0,8)	0,0
Other operating income and expenses	6,1	0,3	(0,4)
Operating profit	**61,1**	**69,3**	**80,5**
Finance costs, net	(10,5)	(12,6)	(10,9)
Share of profit/(Loss) of associates	1,5	0,8	1,8
Profit before income tax from continuing operations	**52,1**	**57,5**	**71,4**
Income tax on continuing operations	(10,4)	(15,5)	(19,8)
Net profit/(loss) from continuing operations	**41,7**	**42,0**	**51,6**
Net profit/(Loss) from discontinued operations[(1)]	(5,2)	(7,3)	23,6
Net profit for the period	**36,5**	**34,7**	**75,2**
Attributable to owners of the parent company	36,5	34,5	74,8
Attributable to non-controlling interests	0,0	0,2	0,4
Earnings per share *(in € per share)*			
• basic	1,44	1,38	2,98
• diluted	1,44	1,37	2,97
Earnings per share of continued operations *(in € per share)*			
• basic	1,64	1,67	2,04
• diluted	1,64	1,66	2,03

(1) 2012 financial statements have been restated to apply revised IAS 19 standard on pensions. Financial impacts of the retrospective application of that standard from 1st January 2013 are described in note 2.1 to the consolidated financial statements.

Consolidated statement of comprehensive income

(in € million)	2013	2012(1) Restated	2011(1) Restated
Net profit for the period	**36,5**	**34,7**	**75,2**
Other comprehensive income:			
Actuarial gains and losses recognised against statement of comprehensive income	1,0	(4,7)	0,3
Tax effect on actuarial gains and losses recognised against statement of comprehensive income	(0,4)	1,6	(0,1)
Items that will not be reclassified to profit or loss	**0,6**	**(3,1)**	**0,3**
Fair value gains/(losses) on cash flow hedge	(0,9)	1,5	(1,5)
Fair value gains/(losses), net on investment hedge	4,9	12,1	(5,9)
Currency translation adjustments	(12,8)	(9,2)	9,8
Tax effect on income/(expenses) recognised directly in equity	(1,4)	(4,6)	2,5
Items that may be reclassified subsequently to profit or loss	**(10,2)**	**(0,2)**	**4,9**
Total other comprehensive income for the period, net of tax	**(9,6)**	**(3,3)**	**5,2**
Total comprehensive income for the period	**26,9**	**31,4**	**80,4**
Attributable to:			
• Owners of the parent company	27,4	31,4	80,2
• Non-controlling interests	(0,5)	0,0	0,2

(1) 2012 financial statements have been restated to apply revised IAS 19 standard on pensions. Financial impacts of the retrospective application of that standard from 1st January 2013 are described in note 2.1 to the consolidated financial statements.

Consolidated statement of cash flows

(in € million)	2013	2012 Restated[(1)]	2011 Restated[(1)]
Net profit for the period from continuing operations	**41.7**	**42.0**	**51.6**
Adjustments			
Share of net profit/(loss) of associates (net of dividends received)	(0.5)	0.1	(0.8)
Income tax expense from continued activities	10.4	15.5	19.8
Property, plant and equipment and intangible assets amortisation and depreciation	38.0	32.7	28.0
Finance costs, net	10.5	12.6	10.9
Stock option plans	1.0	1.4	1.6
Net movements in provisions	0.0	(4.7)	(3.7)
Other	(6.1)	(0.4)	0.2
	95.0	**99.2**	**107.6**
Change in inventories	(19.2)	(3.3)	(8.7)
Change in trade and other receivables	(3.1)	(13.6)	2.8
Change in trade and other payables	2.5	1.0	(1.2)
Change in other receivables and payables	(6.8)	(11.5)	(10.1)
Changes in working capital	**(26.6)**	**(27.4)**	**(17.2)**
Cash flows from operations before interest and tax	**68.4**	**71.8**	**90.4**
Interest paid	(7.3)	(6.6)	(12.6)
Income tax paid	(6.9)	(9.7)	(11.1)
Net cash generated by operating activities	**54.2**	**55.5**	**66.7**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	8.7	0.0	0.0
Purchase of property, plant and equipment	(42.0)	(44.6)	(58.6)
Purchase of intangible assets	(6.3)	(9.7)	(9.1)
Proceeds from sale of property, plant and equipment	0.3	0.7	0.3
Variation of other non-current financial assets and liabilities	(0.2)	0.1	0.3
Net cash used in investing activities	**(56.9)**	**(53.5)**	**(67.1)**
Cash flows from financing activities			
Capital increase	1.7	0.0	2.2
Purchase/Sale of treasury shares - liquidity contract	0.5	(0.2)	(1.1)
New financial debt	0.0	209.4	0.0
Financial debt repayments	0.0	(328.5)	0.0
Grants related to assets and insurance indemnities	9.0	10.5	20.4
Increase/(decrease) in other long-term liabilities	(0.4)	(0.4)	0.0
Dividends paid to Company shareholders	(9.0)	(43.1)	(17.6)
Net cash generated by/(used in) financing activities	**1.8**	**(152.3)**	**3.9**
Net cash generated by/(used in) continuing operations	(0.9)	(150.3)	3.5
Net cash generated by/(used in) discontinued operations	(8.4)	0.0	62.1
Net increase/(decrease) in cash	**(9.3)**	**(150.3)**	**65.6**
Cash and cash equivalents at beginning of period	114.5	267.2	194.6
Impact of changes in exchange rates	(3.8)	(2.4)	7.0
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**101.4**	**114.5**	**267.2**

(1) 2012 financial statements have been restated to apply revised IAS 19 standard on pensions. Financial impacts of the retrospective application of that standard from 1st January 2013 are described in note 2.1 to the consolidated financial statements.

Consolidated statement of financial position

Assets

(in € million)	31/12/2013	31/12/2012 Restated(1)	31/12/2011 Restated(1)
Non-current assets			
Intangible assets, net	205,9	213,3	218,1
Goodwill	107,8	111,1	112,7
Property, plant and equipment, net	245,1	226,7	214,4
Investment properties	0,1	0,1	0,1
Investments in joint undertakings	13,8	13,3	13,3
Deferred income tax assets	6,5	5,9	6,8
Other non-current financial assets	0,5	0,3	0,4
	579,7	**570,7**	**565,8**
Current assets			
Inventories	97,1	80,2	85,5
Tax credits	22,5	14,7	10,0
Trade and other receivables	173,0	170,0	159,5
Derivative financial instruments	1,0	1,0	3,9
Cash and cash equivalents	101,4	114,5	267,2
	395,0	**380,4**	**526,1**
Assets held for sale	0,0	18,8	0,0
TOTAL ASSETS	**974,7**	**969,9**	**1091,9**

(1) 2012 financial statements have been restated to apply revised IAS 19 standard on pensions. Financial impacts of the retrospective application of that standard from 1st January 2013 are described in note 2.1 to the consolidated financial statements.

Liabilities

(in € million)	31/12/2013	31/12/2012 Restated(1)	31/12/2011 Restated(1)
Shareholders' equity			
Ordinary shares	25,9	25,2	25,2
Share premium	88,9	78,1	103,2
Treasury shares	(1,5)	(2,0)	(1,8)
Cumulative translation adjustments	13,7	26,0	34,8
Fair value and other reserves	5,4	2,1	(3,7)
Group consolidated reserves	280,9	262,3	244,6
Minority interest in equity	2,2	2,7	2,7
Total shareholders' equity	**415,5**	**394,4**	**405,0**
Liabilities			
Non-current liabilities			
Financial debt	208,3	212,8	101,2
Other non-current financial liabilities	3,2	4,9	5,3
Deferred grants related to assets	52,7	53,4	47,3
Deferred income tax liabilities	69,9	75,1	71,0
Pensions and other long-term employee benefits	10,2	11,0	12,8
Provisions	32,4	31,5	33,1
	376,7	**388,7**	**270,7**
Current liabilities			
Trade and other payables	164,4	152,9	162,3
Income tax payable	6,3	5,7	6,6
Financial debt	4,7	4,7	237,8
Derivative instruments	0,6	1,0	1,2
Pensions and other long-term employee benefits	1,2	1,1	1,1
Provisions	5,3	6,3	7,2
	182,5	**171,7**	**416,2**
Liabilities associated with assets held for sale	0,0	15.1	0.0
TOTAL LIABILITIES AND EQUITY	**974.7**	**969.9**	**1091.9**

(1) 2012 financial statements have been restated to apply revised IAS 19 standard on pensions. Financial impacts of the retrospective application of that standard from 1st January 2013 are described in note 2.1 to the consolidated financial statements.

Statement of changes in equity

(in € million)	Number of shares making up the capital	Owners of the parent company: Share capital	Share premium	Reserves	Total comprehensive income for the period attributable to equity	Total	Non-controlling interests	Shareholders' equity
Balance at 31/12/2010 Restated(1)	**25,125,840**	**25.1**	**102.1**	**171.1**	**39.7**	**338.0**	**1.4**	**339.4**
Appropriation of 2010 earnings		-	-	39.7	(39.7)	-	-	0.0
Employee stock option plans (value of employee services)		-	-	1.6	-	1.6	-	1.6
Capital increase at Amco-Saft India Ltd.		-	-	-	-	-	1.1	1.1
Capital increase by exercise of stock options	49,005	0.1	1.1	-	-	1.2	-	1.2
Dividend paid		-	-	(17.6)	-	(17.6)	-	(17.6)
Purchase/Sale of treasury shares		-	-	(1.1)	-	(1.1)	-	(1.1)
Total comprehensive income		-	-	-	80.2	80.2	0.2	80.4
Balance at 31/12/2011 Restated(1)	**25,174,845**	**25.2**	**103.2**	**195.5**	**80.2**	**402.3**	**2.7**	**405.0**
Appropriation of 2011 earnings		-	-	80.2	(80.2)	-	-	0.0
Employee stock option plans (value of employee services)		-	-	1.3	-	1.3	-	1.3
Dividend paid		-	(25.1)	(18.0)	-	(43.1)	-	(43.1)
Purchase/Sale of treasury shares		-	-	(0.2)	-	(0.2)	-	(0.2)
Total comprehensive income		-	-	-	31.4	31.4	-	31.4
Balance at 31/12/2012 Restated(1)	**25,174,845**	**25.2**	**78.1**	**257.0**	**31.4**	**391.7**	**2.7**	**394.4**
Appropriation of 2012 earnings		-	-	31.4	(31.4)	-	-	**0.0**
Employee stock option plans (value of employee services)		-	-	1.0	-	1.0	-	**1.0**
Capital increase by exercise of stock options	95,370	0.1	1.6		-	1.7	-	**1.7**
Dividend in shares	583,596	0.6	9.2	(9.8)	-	-	-	
Cash dividend		-	-	-	-	(9.0)	-	**(9.0)**
Purchase/Sale of treasury shares		-	-	0.5	-	0.5	-	**0.5**
Total comprehensive income		-	-	-	27.4	27.4	(0.5)	**26.9**
Balance at 31/12/2013 Restated(1)	**25,853,811**	**25.9**	**88.9**	**271.1**	**27.4**	**413.3**	**2.2**	**415.5**

(1) 2012 financial statements have been restated to apply revised IAS 19 standard on pensions. Financial impacts of the retrospective application of that standard from 1st January 2013 are described in note 2.1 to the consolidated financial statements.

Saft Code of Ethics

Introduction

Our Group benefits from a rich mix of cultures, making it essential that all our employees, regardless of the entity they belong to, the function they carry out or the country they work in share a common definition of Saft's vision, ambition and values. It is also essential that we share the same code of conduct, individually and collectively.

A shared identity, ambition and vision reinforces the image that we give of ourselves, ensures the Group's cohesion and contributes to the confidence of our customers, our partners and suppliers, our shareholders, the public and all the other stakeholders who are involved in our activities and development.

I want to stress the importance of knowing and respecting our Code of Ethics. Our development must be guided by our core ethics. Our Code of Ethics ensures the proper conduct of our daily activities. Each Saft employee whatever his or her position in the Group, must be familiar with and scrupulously apply these principles.

I have created an ethics committee which will meet on a regular basis to ensure that our code is continually adapted to our evolving business environment.

I consider it of the utmost importance that each of you has easy and direct access to these fundamental rules. They will also be available to all on our internet and Intrasaft sites.

I count on you all to respect these rules.

John Searle
Chairman and CEO

January 2010

1. Working with our customers

1.1 - The way we work with our customers

The success of our customers is a key to Saft's success. Customers look to us for performance innovation, reliability but also integrity. The standards of behaviour required in our client relationships are designed to ensure that we consistently deliver those values and avoid mistakes that will harm our reputation.

1.2 - Quality

We strive to help our customers gain competitive advantage by adding value through the performance and quality of our technologies.

1.3 - Honesty

Trust is built through transparency and honesty. To be successful on a sustainable basis, we have to build each customer's trust through the integrity of our words and actions. We don't promise what we can't deliver and strive to ensure that customers, shareholders and colleagues trust us to keep our word.

1.4 - Fair competition

We believe in a competitive, free enterprise system because it guarantees that our hard work and innovation will be rewarded.

This system, as the basis of a free market economy, is protected and promoted by competition law. Consequently, our actions must always comply with all applicable antitrust and other laws regulating competition. While these laws vary from country to country, Saft’s minimum standard can be defined as follows:

We compete openly and independently in every market. We do not make any agreements – formal or otherwise – with competitors to fix or set prices or allocate products, markets, territories or customers.

We do not obtain or share with competitor's current or future information about price, profit margins or costs, bids, market share, distribution practices, terms of sales, specific customers or vendors.

We do not agree with or require a customer to resell our products at certain prices.

We do not act in a manner that unfairly favours or benefits one customer over another competing customer.

Be mindful of the antitrust risks presented by trade and professional association meetings. As a Saft employee you are required to:

Attend only meetings of legitimate trade and professional associations held for proper business, scientific, or professional purposes.

Discuss any questionable agenda items with your manager before you attend the meeting.

Leave the meeting and promptly advise your manager, if you observe any activity at an association meeting that appears to be illegal or suspicious.

1.5 - Improper payments

Saft's reputation must not be put at risk by the offer of improper payments. In dealing with public official, political parties or their officials or any private sector worker, Saft employees must never offer, promise or give any undue pecuniary or other advantage, whether directly or through intermediaries, to obtain or retain business or any improper advantage in the conduct of business.

1.6 - Gifts and favours

Accepting gifts and entertainment from business partners or offering such favours undermines our credibility. It makes us vulnerable to accusations that business decisions are influenced by factors others than merit.

Employees must therefore not offer, make, seek or accept gifts, payment, entertainment or services to actual or potential business partners which might reasonably be believed to influence business transactions, which are not within the bounds of customary business hospitality or which are prohibited by law.

2. Protecting Saft interests

2.1 - Use of the company's assets

Saft strives to give employees the tools they need – equipment and information – to be effective. Saft's physical assets, intellectual property rights and information must be handled with care to avoid loss, theft or damage. Information assets include organization charts, technologies and processes, manufacturing methods, as well as marketing, advertising, and business development studies and plans. These are considered to be Saft proprietary information and they belong to the Group. They must not be disclosed either during employment or after leaving the Group. The Company will defend its assets by all necessary legal means.

Company assets are intended to be used for business purposes. Limited personal use is only permissible if it is not in conflict with the interests of Saft, this Ethics policy or Saft's rules and policies.

2.2 - Use of information systems

Saft's information systems are there to help us work efficiently and professionally. Generally, such facilities should be used for business purposes, in a manner that does not violate the rights or interests of the Saft Group, and in line with rules issued by the Saft Group.

Remember that any communication via e-mail could be regarded as a statement of Saft. Therefore, employees must be careful not to release information that is commercially sensitive or contentious or may have undesired contractual or other legal implications for Saft.

All laws governing copyright, defamation, discrimination and other forms of written communication also apply to online and e-mail communication. Unauthorized or unlicensed software must not be placed onto Saft's IS facilities.

Saft's information systems facilities must not be used to attack the integrity of our or a third party's networks or data. This includes originating or forwarding chain letters or unsolicited commercial e-mail (spam).

Information produced and stored on Saft's information systems facilities is regarded as Saft's property and Saft reserves the right to access all such information except where limited by law or agreement. Employees are responsible for keeping their electronic files and archives in an orderly manner.

2.3 - Confidential information

Information is an asset. We share some of it in press releases, product information, the annual report and other public documents. Any other information that comes to employees in connection with their work, whatever the source must be kept confidential to prevent others copying our work or poaching customers. It may also include information that suppliers, customers, or partners may have entrusted to Saft.

Mark information appropriately, keep it secure and limit access to those who need to know in order to do their jobs. Avoid discussing information in areas where you may be overheard, such as airports, public transport, restaurants and bars, elevators, restrooms, and cafeterias.

Information is so valuable that it may be appropriate to ask any outside party given access to confidential information to sign a confidentiality agreement approved by the Legal department.

2.4 - The intellectual property rights of others

Saft protects its own secrets and respects the intellectual property rights of others. Employees must not obtain confidential information of other parties by improper means or disclose it without authorization.

2.5 - Conflicts of interest

Conflicts of interest can arise where personal interests or family and other allegiances are at odds with the interests of the company. In general, we should avoid situations in which personal interests, outside activities, financial interests, or relationships conflict or appear to conflict with the interests of Saft and not allow business dealings on behalf of the company to be influenced by personal considerations or relationships.

The most frequent conflicts of interest arise where an employee is in a position to award business contracts, hire staff, has access to information that may be of interest to the financial markets or is offered employment by a competitor.

Employees who think they may be in a “conflict” must inform their line manager, local ethics officer or human resources manager so that the company can determine whether a conflict exists. They will be advised of the proper actions to take, in line with rules issued by the Saft Group.

2.6 - Privileged information and insider trading

Inside information is information not readily available to the public that an investor would consider important in deciding whether to buy or sell a company’s shares. It can be information affecting shares of Saft or of another company.

Because inside information may have considerable value to investors, it is governed by legislation designed to preserve public confidence in and the integrity of the securities markets in many countries.

Saft has strict routines and guidelines for the dissemination of such information, which includes financial data and plans for the future of the business and changes to key personnel. The laws and agreements with the stock exchange prohibit anyone with inside knowledge from trading the securities or disclosing the information. If employees are unsure whether they have “inside” information, they should contact their supervisor or the legal department to discuss the situation.

Trading securities such as shares or bonds while in the possession of insider information is both unethical and illegal, and will be dealt with decisively. It is not permitted to share inside information with Saft employees unless they need to know and are aware of their obligations in handling the information. It is against the law to share information with others, including a co-worker, family member, friend or former colleague, who might make an investment decision based on inside information.

Saft informs all insiders in writing of their responsibilities and keeps up to date insider lists as required by the French stock market authority.

Communication with investors and the financial media is the exclusive responsibility of the financial and communication departments.

2.7 - Anti-money laundering rules

Saft's commitment to fairness, honesty and openness extends to complying fully with all money-laundering laws throughout the world. Money laundering generally occurs when funds from illegitimate sources are brought into legitimate financial channels to hide them or make them appear legitimate.

Employees must protect the integrity and reputation of Saft by helping to detect possible money laundering activities. They should watch for and report warning signs to their manager, which may include customers who are reluctant to provide complete information or wish to make payments in cash.

2.8 - We keep accurate and complete financial records

Investors, creditors and others have a legitimate interest in Saft's accounts. The integrity of the accounts depends on the accuracy, completeness and timeliness of the entries. All Saft's business transactions must therefore be fully and fairly recorded in accordance with Saft's accounting principles and other appropriate requirements. Improper or fraudulent documentation or reporting is illegal.

3. Choosing and working with business partners

We choose our business partners with care.

3.1 - Relationships with suppliers

Saft expects fair competition in its markets and applies the same standard in dealing with suppliers. If you select and/or deal with suppliers, you should not show any favour or preference to any person or business based on anything other than the best interests of Saft. You must not let your business dealings on behalf of the company be influenced by personal or family interests.

Similarly, all purchases of goods and services for Saft must be made in accordance with company policies.
Please also refer to the specific supplier-relations document available from the purchasing director.

3.2 - Agents, consultants

Commissions or fees paid to agents and consultants must be reasonable in relation to the services provided. Employees must not agree or pay commissions or fees that could be considered to be improper payments.

Agreements with consultants, brokers, sponsors, agents or other intermediaries shall not be used to channel payments to any person or persons, including public officials or customer employees.

4. Respect for regulations

Upholding Saft’s reputation for integrity requires absolute compliance with the law for Saft and all employees. Employees are expected to be familiar with the law as it applies to their job and management is expected to provide necessary instruction and advice.

Saft expects employees to comply with all laws designed to protect health, safety and the environment, to obtain all required permits and to operate facilities in strict accordance with the relevant laws.

Due to the nature of Saft’s business we observe the highest possible level of protection of our employees’ health and safety and of our environment. A specific environment policy is available on www.saftbatteries.com

5. Working with public bodies

Saft interacts with different groups of stakeholders including customers, suppliers, shareholders, the media, non-governmental organizations and government officials. The interaction of employees with governments around the world is of particular importance.

5.1 - We cooperate fully with officials

Saft does business in many countries and values good relations with governments. National and local governments around the world have specific and varied procurement laws to protect the public interest. They generally prohibit offering benefits to individual officials, often include limitations on hiring current or recently retired officials and forbid any conduct that may be viewed as improperly influencing objective decision-making.

Saft employees must be truthful and accurate in interactions with government officials and observe the highest ethical standards when conducting business with government representatives.

In dealing with a government, employees are responsible for knowing and complying with applicable laws and regulations, and must not contact government officials on behalf of the company unless it is their job to do so.

5.2 - Contributions to public affairs

Employees are free to contribute (without company reimbursement) to a political candidate or party using their own personal time, money or other resources.

Saft funds, property or services must not be used to support any candidate for political office, political party, official or committee anywhere in the world.

6. Respecting and protecting our employees

The people who work for at Saft come from many different countries, backgrounds and cultures. We can only appreciate the contribution of each individual if we observe normal standards of courtesy and respect when interacting with one another. Saft will also be judged by outsiders according to the way they are treated in their business dealings with the company. Clear and regular communications, diversity, equality of opportunity and upholding health and safety are essential to fostering a work environment in which everyone will feel welcome and comfortable.

6.1 - Regular and open communication

Regular communication between managers and their teams is a key to business success. This communication, which usually takes the form of meetings and briefings, should cover business strategy, long-term objectives and short-term priorities. Communication between employees and their superior should include making clear how employees are contributing to Saft's business goals.

Employees have a right to receive their superior's assessment of their performance, which is expected to ascertain progress and, where appropriate, to include proposed plans for further development.

6.2 - Mutual respect and privacy

The privacy of personal information – whether from employees, customers, contractors or vendors – is to be respected at all times. Employees must collect, use, store, handle, and disclose individual personal information in accordance with Saft's privacy policies and applicable laws.

All e-mail and Internet communications made through Saft facilities are treated as Saft business information and so may be accessed, retrieved, monitored and disclosed by Saft for legitimate business purposes, in accordance with relevant laws.

6.3 - Equal opportunities

The dedication and professionalism of our employees is essential in order to achieve our objectives. Dozens of different businesses in countries around the world have come together over the years under the Saft umbrella and Saft's culture welcomes them all, regardless of gender, nationality, age, physical ability, or sexual orientation, or any other aspect of diversity. Employees must conduct their business activities with co-workers, customers, stakeholders and business partners with respect for all people without regard to differences or similarities.

Saft recruits and promotes people based on an objective evaluation of the necessary qualifications and qualities for the work to be performed. Employees should not engage in or support discrimination in hiring, compensation, access to training, promotion, termination or retirement based on gender, age, ethnic and national origin, caste, religion, disability, sexual orientation, union membership or political affiliation.

6.4 - Protection against harassment

Harassment - be it face-to-face, written, electronic or verbal – will not be tolerated at Saft and will be dealt with according to the rules in each country we operate in.

6.5 - Access to information

The Group undertakes to protect the personal information gathered in connection with the employment. Access to such information is disclosed only with prior consent of the employee except the data necessary to meet legal requirements in each country in which Saft operates.

The personnel charged with keeping such records shall guarantee that the information is not unlawfully disclosed.

6.6 - Sustainable development

Every Saft employee contributes to achieving the company's sustainability goals by supporting economic progress, environmental stewardship and social development. One aspect involves taking appropriate initiatives that improve the quality of life in the communities and countries where Saft operates.

Sustainability means that Saft treats all stakeholders in a socially responsible manner. Employees can contribute by promoting open dialogue with stakeholders on Saft's economic, social and environmental contributions and performance, subject to confidentiality rules.

6.7 - We support environmental responsibility

Due to the nature of our business, all Saft employees have the responsibility to comply with the letter and the spirit of environmental laws and regulations and respect the environment, wherever they work.

6.8 - Health and safety

It is our duty to our colleagues, their families and their communities to safeguard the health and safety of every employee at work. Saft's stringent health and safety policies and reporting requirements are in place to protect the lives and good health of employees.

Saft's ground rules for employees are: work safely and protect yourself, your co-workers, the community and the environment. The policies, procedures and programs apply worldwide to promote safe and healthy working conditions, protect the environment, and support the Group's commitment to compliance with applicable laws and regulations.

You should know and comply with the law and related company policies if you have responsibilities in areas that are subject to safety and/or environmental regulations.

The Group naturally respects all the provisions of the United Nations Declaration of Human Rights.

The MBTA specification currently requires that the primary suppliers of subsystems delineated in Tab 1.1 to have the following information included in a Bidder's Proposal. We request that you provide this information to us so that it can be incorporated into our submittal. As noted in our cover letter, we are requesting clarification from MBTA regarding the need for this material. We will advise you of their response, but we must currently proceed as if it will be required. We request your return of this information by January 31, 2014.

1. attach relevant certificate of good standing from the secretary of state of the commonwealth of massachusetts.

   Answer: No

2. Provide the name and telephone numbers of the all business owners, shareholders if not a publicly held corporation, and /or members if a limited liability company.

   Answer:

   Company Name: Simutech International Co., LTD

   Owners: Wang Wen Guang

   Telephone Numbers: 0086-010-81788332-8003

3. Provide the name , title and telephone number of all officers.

   Answer:

   Name: Wang Wen Guang

   Title: President

   Telephone Numbers: 0086-010-81788332-8003

   Name: Cui Peng

   Title: Vice president

   Telephone Numbers: 0086-010-81788332-8005

   Name: Zhu Yi

   Title: Vice president

   Telephone Numbers: 0086-010-81788332-8018

4. Has the business or an owner or shareholder of the business ever had a prior contractual reationship with the MBTA? If yes, please describe relationship.

Answer: No

5. 5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA. any other Massachusetts atate agency or any federal agency? if yes, please describe the circumstances. please indicate whether it resulted in a termination for cause.

   Answer: No

6. have any of the business owners,shareholders, or officers every been convicted of felony violations of federal , state or local laws? if yes, please describe the circumstances.

   Answer: No

7. Are there any pending recent law suits against the business or any of its owners or share holders? if yes, please describe the circumstances.

   Answer: No

8. Provide the name, address , account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

   Answer:

   Insuranceagent Name: Ping An insurance company of China, Ltd.

   Address: Guangdong Province Shenzhen Fukuda District Fuhua road Galaxy Development Centre

   account number:

   contact person: Li zheng

   telephone number: 0086-18901231006

9. Provide the name, address , contact preson and telephone of three business credit references, including but not limited to your primary banking insitution.

   Answer:

   Company Name: Beijing Bank

   Contract Person: Meng Yun Yun

   Telephone: 0086-13121683869

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?

    Answer: No.

11. Provide the last three years of audited financial statements, or resonable equivalent of the offeror. If the offeror is a joint venture or other combination of business entities, provide the last three years audited financial statements of each entity.

    Answer: Please check attach file.

12. Provide the business's current code of business ethices or equivalent.

    Answer:

    N/A

13. Provide the responses to questions Nos. 1 trough 12 for all proposed suppliers of major subsystems identified inresponse to TabI.1 Technical approach.

Consolidated Balance Sheet

Dec-10 Monetary Unit: RMB

Assets	Beg. of the period	End of the period	Liabilities and owner's equities	Beg. of the period	End of the period
Current assets:			Current liabilities:		
Cash and cash equivalents	1,479,889.13	6,663,649.41	Short-term borrowings		
Short-term investments			notes payable		
notes receivable			Accounts payable	270,670.00	11,799.00
dividends receivable			Receipts in advance	626,621.50	7,520,358.01
interest receivable			Wages Payable	1,279,107.71	258,529.41
Accounts Receivable		1590451.2	Welfare payable	331,088.31	125,068.69
Other receivables	3,327,734.37	3,009,763.55	dividends payable		
Prepayments	2,303.11	2,356,216.91	tax payable	1,069,846.82	854,787.68
allowance Receivable			other payables	41,327.42	13,058.51
inventory	1,023,484.74	1,394,755.11	other amounts payable	6,132,893.90	3,043,224.70
Prepaid expenses	607,012.81	305,354.28	Accrued expenses	487,324.50	32,570.85
			Other current liabilities	735,000.00	735,000.00
Total Current assets:	6,440,424.16	15,320,190.46	Total current liabilities	10,973,880.16	12,594,396.85
Long-term investments:			Long-term liabilities:		
Long-term equity investment	9,940,000.00	9,940,000.00	Long-term borrowings		2,000,000.00
Total Long-term investments	9,940,000.00	9,940,000.00	Bonds payable		
Fixed assets:			Long-term payables		
Fixed Assets	1,270,284.18	1,273,534.18	specific payable		
Less: accumulated depreciation	561,257.83	719,952.27	other long-term liabilities		
Net fixed assets	709,026.35	553,581.91	Total long-term liabilities		2,000,000.00
Net amount fixed assets	709,026.35	553,581.91	Deferred taxation:		
Total Fixed assets	709,026.35	553,581.91	Deferred tax credits		
Intangible assets	7,338,733.28	6,301,999.88	Total Liabilities	10,973,880.16	14,594,396.85
research expenses			Paid-in capital		
Total Intangible assets and other assets	7,338,733.28	6,301,999.88	net amount Paid-in capital	9,800,000.00	12,500,000.00
Deferred taxation:			Capital reserve	3,182,000.00	3,182,000.00
Deferred tax assets			Undistributed profit	472,303.63	1,839,375.40
			Total equity	13,454,303.63	17,521,375.40
Total as	24,428,183.79	32,115,772.25	Total liabilities and equity	24,428,183.79	32,115,772.25

The income statement

Dec-10 Monetary Unit: RMB

Items	Months	Year 2010
the main business income	16,450,817.20	16,450,817.20
Less: Cost of main business	8,131,529.77	8,131,529.77
Business tax and surcharges	683,929.69	683,929.69
the main business profit	7,635,357.74	7,635,357.74
Add: Other operating profit		
Less: Operating expenses	1,892,289.24	1,892,289.24
management fees	4,850,113.76	4,850,113.76
Finance costs	64,969.60	64,969.60
	827,985.14	827,985.14
the operating profit		
Add: Investment income		
Subsidy income		
Operating income	3,864.00	3,864.00
Less: operating expenses		
Total Profit	831,849.14	831,849.14
Less: Income tax	124,777.38	124,777.38
Retained profits	707,071.76	707,071.76

Consolidated Balance Sheet					
		2011年12月31日			Monetary Unit: RMB
Assets	**Beg. of the period**	**End of the period**	**Liabilities and owner's equities**	**Beg. of the period**	**End of the period**
Liquid assets:			Current liabilities:		
The Monetary Fund	6,663,649.41	3,543,258.32	Short term borrowings		1,900,000.00
Short term investment			Notes payable		
Notes receivable			Accounts payable	11,799.00	356,039.00
Dividend Receivable			Accounts receivable	7,520,358.01	1,467,957.89
Interest receivable			Salary payable	258,529.41	355,357.74
Accounts receivable	1,590,451.20	522,380.00	Welfare expenses payable	125,068.69	
Other receivables	3,009,763.55	2,686,554.94	Dividend payable		
Prepayments	2,356,216.91	2,333,185.05	Tax payable	854,787.68	1,302,332.30
Subsidy receivable			Other accounts payable	13,058.51	25,915.05
Stock	1,394,755.11	2,325,506.27	Other payables	2,843,224.70	3,066,323.44
Prepaid expenses	305,354.28	388,876.44	Accrued expenses	232,570.85	
Investment in long-term			Expected liabilities		
Other current assets			Long term liabilities due		
			Other current liabilities	735,000.00	840,000.00
Total current assets	15,320,190.46	11,799,761.02	Total liabilities	12,594,396.85	9,313,925.42
Long-term investment.			Long term liabilities:		
Long term equity	9,940,000.00	9,940,000.00	Long term loans	2,000,000.00	
Long term debt			Bonds payable	-	-
Long term investment	9,940,000.00	9,940,000.00	Long term payables	-	-
Fixed assets:			Special payable	-	-
Original value of fixed	1,273,534.18	1,276,097.43	Other long term liabilities	-	-
Less: accumulated	719,952.27	843,758.50	Long term liabilities	2,000,000.00	-
Net value of fixed assets	553,581.91	432,338.93	Deferred tax:		
Less: provision for			Deferred tax	-	-
Net fixed assets	553,581.91	432,338.93	Total liabilities	14,594,396.85	9,313,925.42
Engineering materials			The rights of minority		
In the Construction					
Liquidation of fixed assets			Owner's equity (or		
Total fixed assets	553,581.91	432,338.93	Paid in capital (or stock)	12,500,000.00	12,500,000.00
Intangible assets and			Less: Investment returned		
Intangible assets	6,301,999.88	5,453,699.84	Paid in capital (or stock) net	12,500,000.00	12,500,000.00
Research and			Capital reserve	3,182,000.00	3,182,000.00
Other long-term assets			Surplus reserve	-	-
Total intangible assets	6,301,999.88	5,453,699.84	Including: statutory public	-	-
Deferred tax:			Undistributed profit	1,839,375.40	2,629,874.37
Deferred tax assets			Owner's equity (or	17,521,375.40	18,311,874.37
Total assets	32,115,772.25	27,625,799.79	Liabilities and owner's	32,115,772.25	27,625,799.79

The income statement

	Monetary Unit: RMB	
Items		
One, the main business income	11,155,747.79	11,155,747.79
Less: main business cost	4,373,343.79	4,373,343.79
Main business taxes and additional	505,240.51	505,240.51
Two, the main business profit (loss expressed with "-")	6,277,163.49	6,277,163.49
Plus: profit from other operations (loss expressed with "-")		-
Less: operating expenses	537,114.33	537,114.33
Management fee	4,717,259.69	4,717,259.69
Financial expenses	141,107.21	141,107.21
Plus: investment income (loss expressed with "-")	-	-
Three, operating profit (loss expressed with "-")	881,682.26	881,682.26
Subsidy income	-	-
Operating income	52,000.00	52,000.00
Less: operating expenses		-
Four, the total profit (loss expressed with "-")	933,682.26	933,682.26
Less: income tax	145,860.88	145,860.88
The rights of minority shareholders		
Other		
Five, net profit (loss expressed with "-")	787,821.38	787,821.38
Plus: the beginning of the undistributed profits		
Other transfer		
Six, profit available for distribution	787,821.38	787,821.38
Less: statutory surplus reserve		
The statutory public welfare fund		
Extraction of staff bonus and welfare fund		
The reserve fund		
Extraction of enterprise development fund		
Return of investment		
Seven, the distribution of profits for investors	787,821.38	787,821.38
Less: preferred stock dividends payable		
Discretionary surplus reserve		
Common stock dividends payable		
Transferred to capital (or share) common stock dividends		
Eight, undistributed profits	787,821.38	787,821.38

Consolidated Balance Sheet					
			2012年 12月 30日		Monetary Unit: RM
Assets	**Beg. of the period**	**End of the period**	**Liabilities and owner's equities**	**Beg. of the period**	**End of the period**
Liquid assets:			Current liabilities:		
The Monetary Fund	3, 543, 258. 32	8, 396, 800. 71	Short term borrowings	1, 900, 000. 00	2, 000, 000. 00
Short term investment			Accounts payable	356, 039. 00	311, 915. 00
Accounts receivable	522, 380. 00	2, 134, 230. 00	Other payables	3, 066, 323. 44	4, 805, 379. 87
Less: provision for bad debts			Accounts receivable	1, 467, 957. 89	3, 811, 971. 05
Net receivables	522, 380. 00	2, 134, 230. 00	Salary payable	355, 357. 74	406, 302. 35
Prepayments	2, 333, 185. 05	3, 267, 071. 97	Welfare expenses payable		
Other receivables	2, 686, 554. 94	2, 082, 639. 10	Unpaid taxes	1, 302, 332. 30	1, 068, 092. 67
Stock	2, 325, 506. 27	1, 499, 406. 15	Unpaid profit		
Prepaid expenses	388, 876. 44	(3, 013. 56)	Other non payment	25, 915. 05	69, 226. 71
The net loss of current assets to be processed			Accrued expenses		
Investment in long-term debt due within one year			Interest payable		
Other current assets			Other current liabilities	840, 000. 00	840, 000. 00
Total current assets	11, 799, 761. 02	17, 377, 134. 37	Total liabilities	9, 313, 925. 42	13, 312, 887. 65
Long-term investment.			Long term liabilities:		
Long-term investment	9, 940, 000. 00	9, 940, 000. 00	Long term loans		
			Bonds payable		
Fixed assets:			Long term payables		
Original value of fixed assets	1, 276, 097. 43	1, 294, 982. 43	Other long term liabilities		
Less: accumulated depreciation	843, 758. 50	932, 971. 31	Including: Housing turnover gold		
Net value of fixed assets	432, 338. 93	362, 011. 12			
Liquidation of fixed assets			Long term liabilities	0. 00	0. 00
In the Construction Engineering			Deferred tax:		
The net loss on disposal of fixed assets			Deferred tax liabilities		
			Total liabilities	9, 313, 925. 42	13, 312, 887. 65
			The owner's equity:		
Total fixed assets	432, 338. 93	362, 011. 12	Paid in capital	12, 500, 000. 00	12, 500, 000. 00
Intangible assets and deferred assets:			Capital reserve	3, 182, 000. 00	3, 182, 000. 00
Intangible assets	5, 453, 699. 84	4, 605, 399. 80	Surplus reserve		
Deferred assets			Among them: the public welfare fund		
Intangible assets and deferred assets	5, 453, 699. 84	4, 605, 399. 80	Undistributed profit	2, 629, 874. 37	3, 289, 657. 64
Other long-term investment:					
Other long-term assets			Total equity	18, 311, 874. 37	18, 971, 657. 64
Deferred tax:					
Deferred tax assets					
Total assets	27, 625, 799. 79	32, 284, 545. 29	Total liabilities and owners equity	27, 625, 799. 79	32, 284, 545. 29

The income statement		
	12.30.H24	Monetary Unit: RMB
Items	2012	
One, the main business income	17,459,349.95	17,459,349.95
Less: main business cost	8,192,679.77	8,192,679.77
Operating expenses	1,022,748.55	1,022,748.55
Less: main business taxes and additional	193,250.11	193,250.11
	–	–
Two, the main business profit	8,050,671.52	8,050,671.52
Plus: profit from other operations	–	–
Less: management fee	6,919,448.37	6,919,448.37
Financial expenses	372,709.77	372,709.77
	0.00	–
Three, operating profit	758,513.38	758,513.38
Plus: investment income	–	–
Subsidy income	–	–
Operating income	27,895.22	27,895.22
Less: operating expenses	–	–
	–	–
Four, total profit	786,408.60	786,408.60
Less: income tax	117,961.29	117,961.29
Five, net profit	668,447.31	668,447.31

Appendix H

SECTION B PART B TECHNICAL PROPOSAL AND STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

IMPORTANT:

To be answered by Suppliers providing the following systems only:

¤ Propulsion,
¤ Trucks and Major Truck Components,
¤ Auxiliary Power,
¤ Low Voltage DC Power,
¤ HVAC,
¤ Carbody,
¤ Couplers / Draft Gear,
¤ Wheel Sets,
¤ Air Brake Equipment and Controls,
¤ Cab Signal Equipment,
¤ Door Systems,
¤ Seats,
¤ Vehicle Monitoring System,
¤ Network Equipment and Integrator,
¤ Communications Equipment including LED and LCD Signage,
¤ Lighting

Thank you

Supplier Name: TDG TRANSIT DESIGN GROUP

Supplier Representative: RICHARD SEATON

System: INTERIOR AND EXTERIOR LIGHTING

Date: DECEMBER 6, 2013

SECTION B

PART B TECHNICAL PROPOSAL AND
STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

NOTE: The Authority reserves the right to audit compliance with respect to each of the required statements and certifications in the forms submitted by Offerors, including but not limited to the Domestic U.S. Content Certification, Domestic U.S. Content Worksheet, and Final Assembly of Production (Non-Pilot) Vehicles in Massachusetts.

Questions Concerning Eligibility

Provide short answers (and attach relevant documents) to the following questions and requests:

1. **Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.**

   N/A Manufacturing is based out of the State of New York

2. **Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.**

   ROBERT GAGNE 1-888-248-0666

3. **Provide the names, title and telephone numbers of all officers.**

ROBERT GAGNE	PRESIDENT	1-888-248-0666
JOANNA GAGNE	VICE-PRESIDENT, ADMINISTRATION	1-888-248-0666

4. **Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.**

   NONE

5. **Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.**

   NONE

6. **Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.**

   NONE

7. **Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.**

    NONE

8. **Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.**

    MOORE MCLEAN INSURANCE GROUP
    25 Watline Avenue, Suite 301 Mississauga, Ontario L4Z 2Z1
    Cheryl Brookham 1-888 404 0000
    All requests are to be made to TDG who will have Insurance Agent send responses directly to MBTA

9. **Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.**

    Available upon request.

10. **Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?**

    NO

11. **Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity.**

    See Attachment "TDG FYE EXTRACT 2012.pf"

12. **Provide the business's current code of business ethics or equivalent.**

    See Attachment "TGG CODE OF ETHICS"

TDG TRANSIT DESIGN GROUP INC

MISSISSAUGA ONTARIO, CANADA
NIAGARA FALLS NEW YORK, USA

	2012	2011	2010	2009	2008

BALANCE SHEET (000'S omitted)

	2012	2011	2010	2009	2008
Current Assets	$ 3,634	$ 3,067	$ 2,582	$ 2,506	$ 2,078
Long Term Assets	$ 322	$ 116	$ 131	$ 129	$ 138
Total Assets	$ 3,956	$ 3,183	$ 2,713	$ 2,635	$ 2,216
Current Liabilities	$ 1,419	$ 836	$ 793	$ 647	$ 624
Long Term Liabilities	$ -	$ -	$ 5	$ 18	$ 31
Equity & Shareholder Loans	$ 2,537	$ 2,347	$ 1,915	$ 1,970	$ 1,561
Total Liabilities & Equity	$ 3,956	$ 3,183	$ 2,713	$ 2,635	$ 2,216

INCOME STATEMENT (000'S omitted)

	2012	2011	2010	2009	2008
Revenues	$ 7,720	$ 5,606	$ 4,640	$ 5,086	$ 3,350
Net Income after Taxes	$ 378	$ 433	$ 419	$ 409	$ 372

FINANCIAL RATIOS

	2012	2011	2010	2009	2008
DEBT TO EQUITY	0.6	0.4	0.4	0.3	0.4
CURRENT RATIO	2.6	3.7	3.3	3.9	3.3
QUICK RATIO	1.8	2.6	1.9	2.7	2.0
RETURN ON EQUITY	15%	18%	22%	21%	24%
NET PROFIT MARGIN	5%	8%	9%	8%	11%

CERTIFICATION: ____________________

DATED: Nov 15/2013.

CUSTOMER CREDO

November 10, 1989

The customer need is our sole reason for existing, as an economic unit. We will use every resource that is at our disposal to aid the customer in solving his problems. We will develop solutions that are to the customers benefit. We acknowledge that our customer is committed to the problems of passenger transportation and we will do our best to assist in this solution.

We will design and manufacture products that are of quality and appropriate to the customer needs. We will meet with the customer on a regular basis to better grasp and evaluate the current concerns. If for any reason, we are unable to solve the existing issue, we will inform the customer immediately, so that they can take alternative steps.

We will become totally involved with the customer's priorities and planning, in order that we may be able to continue in making suggestions for improving his operations.

We are committed to help solve the problem of traffic congestion in our cities as well has finding ways to reduce the cost of consumer transportation. And since this is also the aim of our customers we intend on giving them our full support.

we will always treat our customer with dignity and respect. At no time will we try to deceive them at their expense and our profit. Even though problems and mis-understandings can arise, we will mutually strive to find a solution.

As a good corporate citizen we will sell product in order to yield a good and fair profit. This will ensure harmony within the corporation, security and self worth for our employees, and a good rate of return for our shareholders. These values will justify our existence.

WE BELIEVE THAT OUR CUSTOMER IS IMPORTANT.

Vendor Additional Information

Date: March 10, 2014

1. Non
2. TOA Corporation
   Tel: +81 78 303 5620
3. President,C.E.O.: Kenji Itani
   Senior Vice President: Kazuhiro Takeuchi
   Senior Vice President: Yoshinori Masuno
   Director: Toshihiko Hatanaka
   Director: Junichi Teramae
   Director: Masato Hotta
   Audit & Supervisory Board Member: Toshio Nishikawa
   Audit & Supervisory Board Member: Iheiji Ando
   Audit & Supervisory Board Member: Shigenobu Kobayashi
4. Yes, we manufactured the equipment of communication system and provide to MBTA via the Hyundai Rotem and Alstom USA.
5. No.
6. No
7. No
8. Aon Risk Solutions (Japan Group, Americas)
   199 Water St, New York, NY 10038
   t +1.212.479.4178
   f +1.212.479.4250
   Attn: Kayo Nishiguchi Montgomery, Account Executive, Broker
   kayo.montgomery@aon.com
9. Check
10. No
11. Refer to the attached financial data

** END **

TOA 80th ANNIVERSARY

search here ! Search inside
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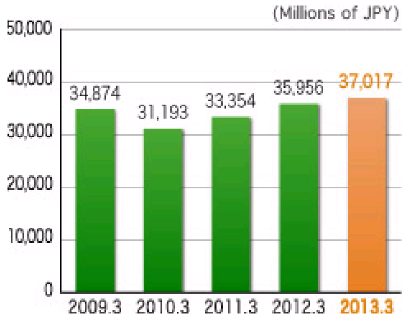
Financial Data

Major Management Indices (consolidated)

Net Sales

Net Sales



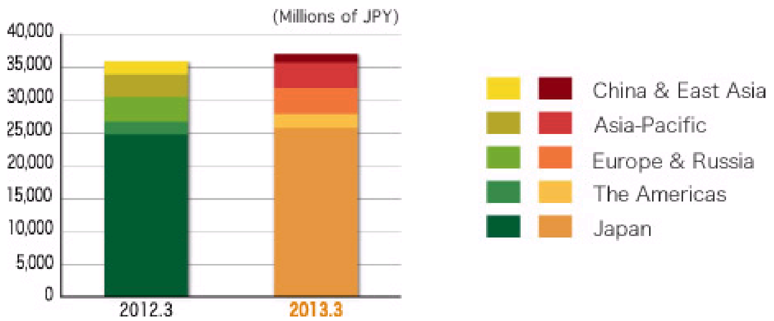
FY 2013 Third 3 Months Net Sales

Click here to view a graph for quarterly results.

Net Sales by Business Segment

(Millions of JPY)

	2012.3	2013.3
Japan	24,736	25,713
The Americas	1,932	2,134
Europe & Russia	3,826	3,935
Asia-Pacific	3,372	3,916
China & East Asia	2,088	1,317



FY 2013 Third 3 Months Net Sales by Reportable Segment

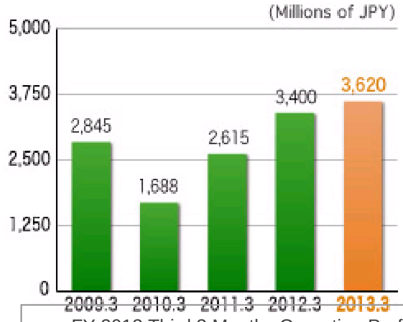
Profit

Operating Profit

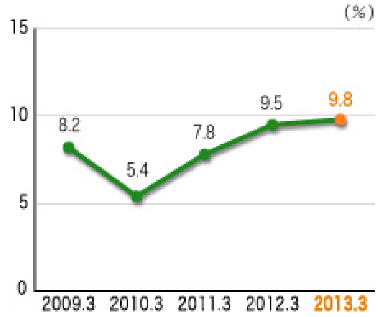
Operating Profit to Net Sales

Top of the Page

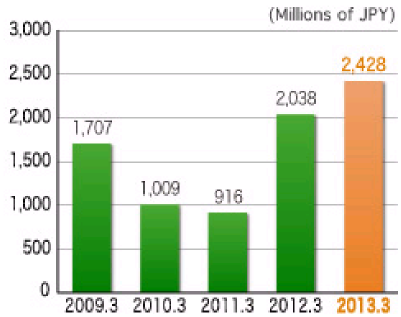
Site Policy



FY 2013 Third 3 Months Operating Profit

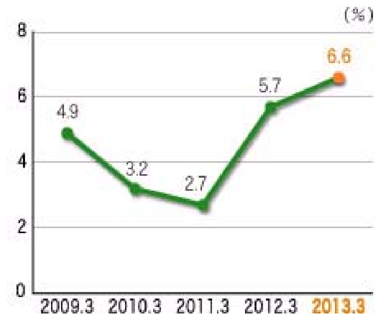


Net Profit



FY 2013 Third 3 Months Net Profit

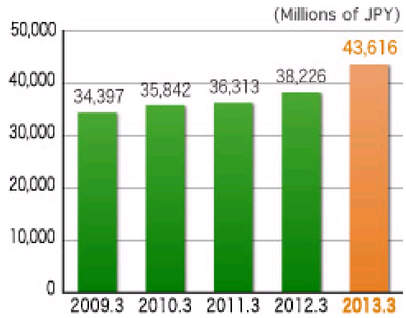
Net Profit to Net Sales



Click here to view a graph for quarterly results.

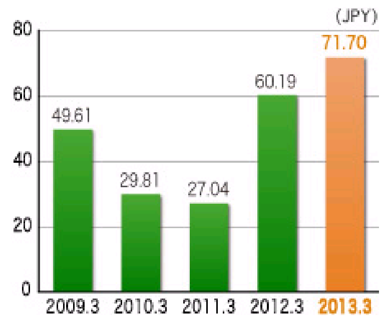
Asset

Total Assets

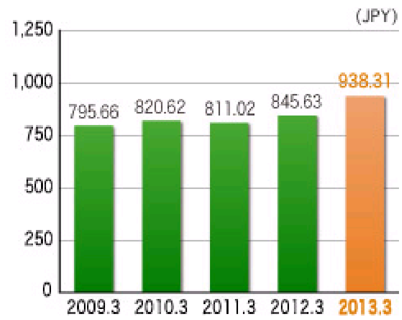


Per Share Data

Earnings per Share



Net Assets per Share



The MBTA specification currently requires that the primary suppliers of subsystems delineated in Tab 1.1 to have the following information included in a Bidder's Proposal. We request that you provide this information to us so that it can be incorporated into our submittal. As noted in our cover letter, we are requesting clarification from MBTA regarding the need for this material. We will advise you of their response, but we must currently proceed as if it will be required. We request your return of this information by January 31, 2014.

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.
   Not applicable.

2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.
   Share Holder: Toyo Denki Seizo K.K.
   Tel: +81-3-5202-8131

3. Provide the name, title and telephone numbers of all officers.
   - Officer 1: **Shinya Koizumi**
     Title: President
     Tel: 724-774-1760
   - Officer 2: **Ichiro Sueoka**
     Title: Vice President
     Tel: 724-709-4764

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.
   No.

5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances, please indicate whether it resulted in a termination for cause.
   No.

6. Have any of the business owners, shareholders, or officers ever been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.
   No.

7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.
   No.

8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents

NAME	**ADDRESS**	**CONTACT NAME**	**TELEPHONE NO.**	**INSURANCE COMPANY**	**INSURANCE TYPE**	**POLICY NO.**
Liberty Insurance Agency	Manor Oak Two, Suite 800 1910 Cochran Road, Pittsburgh, PA 15220	Anthony Latronica	412-571-5714	Federal Insurance Co.(Chubb Group)	Commercial General Liability	2579-34-27
				Federal Insurance Co.	Umbrella	7983-96-37
				Easten Alliance Insurance Co. (Endorsement)	Workers Comp	03-0000504524-06(PA)

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

NAME	**ADDRESS**	**CONTACT**	**TELEPHONE**
PNC Bank	1340 Freedom Rd. Cranberry, PA 16066	Amy Maniet	724-742-9890
Penn Machine Co.	106 Station St., Johnstown, PA 15905	Peter Harper	724-459-0302
Rail Transit Consultants	901 S. Railroad St., Penn, PA 15675	Richard Lerew	724-527-2386

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceeding under the state law?
No.

11. Provide the last three (3) years of audited financial statement, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statement for each entity.
See Attached financial statement 2010, 2012, and 2013.

12. Provide the business's current code of business ethics of equivalent.
Toyo Denki USA, Inc. will hold high and implement the following management philosophy to grow its business to respond to the trust and understanding of its customers, and share with its employees, the joy of growth.
   - **Value ethics and contribute to society and its customers.**
   - **Foster an enterprising and creative spirit and take on challenges for the future.**
   - **Consider quality as our top priority and enhance credibility.**

13. Provide the responses to Questions Nos. 1 through 12 for all proposed suppliers of major subsystems identified in response to Tab I.1 – Technical Approach.

Toyo Denki USA, Inc.

Financial Statements
For the Year Ended
December 31, 2010

Toyo Denki USA, Inc.
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For the Year Ended December 31, 2010

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Goff
Backa
Alfera &
Company, LLC
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and
Stockholder of Toyo Denki USA, Inc.

We have audited the accompanying balance sheet of Toyo Denki USA, Inc. (a Delaware corporation) as of December 31, 2010, and the related statements of operations and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Toyo Denki USA, Inc. as of December 31, 2010, and the results of its operations and its cash flows for the year then, in conformity with accounting principles generally accepted in the United States of America.

Goff Backa Alfera & Company, LLC

Goff Backa Alfera and Company, LLC
Pittsburgh, Pennsylvania
February 15, 2011

Toyo Denki USA, Inc.
Balance Sheet
December 31, 2010

ASSETS		
CURRENT ASSETS		
Cash	$	2,495,513
Accounts receivable		2,212,161
Costs and estimated earnings in excess of billings on uncompleted contacts		201,335
Prepaid expenses		13,412
Deposits		1,130
TOTAL CURRENT ASSETS		4,923,551
PROPERTY, PLANT AND EQUIPMENT		
Property and equipment		14,050
Factory equipment		6,500
		20,550
Less accumulated depreciation		(16,976)
TOTAL PROPERTY, PLANT AND EQUIPMENT		3,574
TOTAL ASSETS	$	4,927,125
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$	2,042,313
Billings in excess of costs and estimated earnings on uncompleted contacts		656,378
Accrued wages		11,094
Accrued paid time off		86,746
Other current liabilities		17,584
TOTAL CURRENT LIABILITIES		2,814,115
STOCKHOLDER'S EQUITY		
Common stock - $.01 par value; 1,000 shares authorized, issued and outstanding		10
Additional paid-in capital		1,914,270
Retained earnings after eliminating accumulated deficit of $1,585,720 at May 27, 2008, date of quasi-reorganization		198,730
TOTAL STOCKHOLDER'S EQUITY		2,113,010
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$	4,927,125

The accompanying notes are an integral part of the financial statements.

Toyo Denki USA, Inc.
Statement of Operations and Retained Earnings
For the Year Ended December 31, 2010

REVENUES	$ 8,460,553
COST OF REVENUES	7,597,162
GROSS PROFIT	863,391
GENERAL AND ADMINISTRATIVE EXPENSES	
Payroll expenses	317,205
Professional fees	32,429
Rent	119,693
Office supplies	4,666
Insurance	123,255
Shipping-out expenses	3,469
Travel and entertainment	29,225
Bank service charges	241
Miscellaneous expenses	35,194
Utilities	21,190
Depreciation expenses	1,300
Repairs and maintenance	7,950
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	695,817
INCOME FROM OPERATIONS	167,574
OTHER INCOME (EXPENSE)	
Other income	4,952
Other expense	(6,605)
TOTAL OTHER INCOME (EXPENSE)	(1,653)
INCOME BEFORE INCOME TAXES	165,921
PROVISION FOR INCOME TAXES	(205,000)
NET LOSS	(39,079)
RETAINED EARNINGS, BEGINNING OF YEAR	237,809
RETAINED EARNINGS, END OF YEAR	$ 198,730

Toyo Denki USA, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$ (39,079)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation	1,300
Deferred income taxes	205,000
(Increase) decrease in assets:	
Accounts receivable	1,070,328
Advances to subcontractors	1,378,585
Cost and estimated earnings in excess of billings on uncompleted contracts	1,188,159
Prepaid expenses	4,499
Increase (decrease) in liabilities:	
Accounts payable	(2,860,191)
Billings in excess of costs and estimated earnings on uncompleted contacts	656,378
Accrued wages	3,406
Accrued paid time off	18,831
Other current liabilities	(7,488)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,619,728
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on related-party loans	(2,000,000)
NET DECREASE IN CASH	(380,272)
CASH AT BEGINNING OF YEAR	2,875,785
CASH AT END OF YEAR	$ 2,495,513
Supplemental Disclosure	
Cash paid for interest	$ 6,681

The accompanying notes are an integral part of the financial statements.

Toyo Denki USA, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2010

Note 1 - Significant Accounting Policies

Nature of Business

Toyo Denki USA, Inc. (the "Company"), supplies electrical propulsion systems to rail car manufacturers in the transit industry. The Company is 100% owned by Toyo Denki Seizo K.K., a Japanese Company, which was founded in 1918 and supplies a complete line of transit products to Japanese and international markets. The Company completed its first order in the American market, supplying propulsion systems to Kinkisharyo International L.L.C. for its Dallas Area Rapid Transit (DART) 20 Light Rail Vehicle (LRV) contract. The Company now executes its second order to supply an additional 48 propulsion systems to Kinkisharyo for use on Super Light Rail Vehicles (SLRVs), also for DART. And the Company completed its third order to supply an additional propulsion system for testing onboard one of DART's existing LRVs, which determined that DART's fleet can be "upgraded" with the Company's equipment. In addition, the Company has received an order from Mitsubishi Electric & Electronics USA, Inc. to supply equipment for use onboard "M8" rail vehicles that will operate on the New York City transit system.

Revenue and Cost Recognition

The Company recognizes revenues from fixed-price and modified fixed-price long-term contracts on the percentage-of-completion method, measured by the percentage of cost incurred to date to estimated total cost for each contract. Management considers total cost to be the best available measure of progress on long-term contracts. For short-term contracts, the Company recognizes revenues using the sales method.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies and tools. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income, which are recognized in the period in which the revisions are determined. Changes in estimated job profitability resulting from job performance, job conditions, contract penalty provisions, claims, change orders and settlements are accounted for as changes in estimates in the current period.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Income Taxes

Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the changes between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance, when in the opinion of management it is more likely than not that some portion or all of the deferred tax assets will not be realized. This is the case as of December 31, 2010. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Note 1 - Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. As of December 31, 2010, management believes no allowance for doubtful accounts is necessary.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. The cost of additions and improvements is charged to the property accounts, while maintenance and repairs are charged against earnings, or to appropriate jobs, when incurred.

Depreciation

Depreciation is computed using the straight-line method based on the estimated useful lives of the individual assets, which range from five to seven years. Depreciation expense was $1,300 for the year ended December 31, 2010.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Foreign Currency

The Company's functional currency is the United States dollar. The Company transacts business in foreign currencies. At the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction is measured and recorded in United States dollars using the exchange rate in effect at that time. At each balance sheet date, balances that will be settled in foreign currencies are adjusted to reflect the current exchange rate. Any gain or loss resulting from changes in foreign currency exchange rates is included in net income in the period in which the exchange rate changes.

Consideration of Subsequent Events

The Company has evaluated subsequent events through February 14, 2011, the date on which the financial statements were available to be issued.

Cash and Cash Equivalents

The Company considers securities with maturities of three months or less, when purchased, to be cash equivalents.

Note 2 – Concentration of Risk

The Company maintains cash balances at two financial institutions. At December 31, 2010, the Company's cash balance exceeded the $250,000 limit insured by the Federal Deposit Insurance Corporation (FDIC) by $1,995,513.

Note 3 – Advances to Subcontractors

Typically, the Company purchases parts and provides them to Subcontractors for incorporation into subassemblies which are completed and returned to the Company. In addition, the company makes progress payments to subcontractors and suppliers during the course of their performance of work under the contract. At December 31, 2010, however, there were no advances to subcontractors.

Note 4 – Contract Receivables

Contract receivables consist of the following at December 31, 2010:

Billed:	
Contracts in progress	$ 501,709
Unbilled retainage	1,710,452
	$ 2,212,161

Note 5 – Uncompleted Contracts

Costs and billings on the uncompleted 48 SLRV contract and Upgrade contract are summarized as follows at December 31, 2010:

Costs incurred on uncompleted contracts	$18,423,104
Estimated earnings	2,477,253
	$20,900,357
Less: billings on uncompleted contracts	$21,355,400
	($ 455,043)

Presented in the accompanying balance sheet as:

Costs and estimated earnings in excess of billings on uncompleted contracts	$ 201,335
Billings in excess of costs and estimated earnings on uncompleted contracts	($ 656,378)
	($ 455,043)

Note 6– Leases

The Company is leasing office/factory space under a lease which expires on July 31, 2012, and requires monthly payments of $8,485. Also, the Company is leasing an apartment under a lease which expires January 31, 2012, and requires monthly payments of $785 through January, 2011 and then $805 through January, 2012. The Company also rents furniture for the office and apartment under a month-to-month lease at a monthly cost of $601.

Note 6– Leases (continued)

Total rent charged to expense under these leases for the Year ending December 31, 2010 amounted to $119,693 including $1,237 for additional common area maintenance.

Future minimum non-cancelable payments under the leases are as follows:

Year ending December 31,	Amount
2011	$ 111,460
2012	60,200
Total	$ 171,660

Note 7 – Major Customer

The Company's contract revenue is concentrated in a large contract from the customer in the Dallas area. The Company had contract revenue from this customer of $8,400,113 for the year ended December 31, 2010. The Company was owed $497,350 from this customer as of December 31, 2010.

Note 8 – Backlog

The Company's backlog of revenue it expects to realize from work to be performed on uncompleted contracts in progress at December 31, 2010 amounted to $732,284.

Note 9 – Retirement Plan

The Company maintains a retirement plan covering all employees. Employees are able to contribute up to $16,500 or 100% of their compensation, whichever is less. In addition, the Company will make a matching contribution equal to 100% up to the first 3% of compensation that the employee defers. Total Company contributions for the year ended December 31, 2010 were $8,699.

Note10 – Income Taxes

At December 31, 2010, provision for income taxes consists of:

	December 31, 2010
Current:	
Federal	$ -
State	-
	-
Deferred:	
Federal	$ 160,000
State	45,000
	$ 205,000

Note 10 – Income Taxes (continued)

The effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	December 31, 2010
Deferred tax assets	$ 600,896
Deferred tax liabilities	(896)
Deferred tax asset valuation allowance	(600,000)
	$ -

Deferred taxes relate primarily to unused net operating losses, depreciation and amortization. At December 31, 2010, the Company has federal and state operating loss carry forwards of approximately $1,300,000 expiring in various years through 2028.

Note 11 – Related Party Transactions

During the year ended December 31, 2010, the Company's 100% owner, Toyo Denki Seizo, K.K. paid the Company $1,580 for miscellaneous parts and $2,375 for support service. At December 31, 2010, the Company owed Toyo Denki Seizo, K.K. $2,000,835 for parts sold to the Company for use in its Kinkisharyo project.

Note 12 – Stockholder's Equity

The Company issued 1,000 shares of $0.01 par value, common stock to its sole stockholder Toyo Denki Seizo, K.K., for a total consideration of $2,500,000. The amount received in excess of the par value, $2,499,990, was recorded as additional paid-in capital. During 2006, Toyo Denki Seizo, K.K. contributed $1,000,000 as additional paid-in capital to be used in operations.

The Company's Board of Directors approved a corporate readjustment of the Company's accounts in the form of a quasi-reorganization, which was effected May 27, 2008. The accumulated deficit, most of which was a result of the Company's start-up and performance of its initial project in the USA, was reduced by $1,585,720 with a corresponding $1,585,720 reduction of additional paid-in capital. The reduction in accumulated deficit is expected to improve the flexibility of the Company's future management strategy.

Toyo Denki USA, Inc.

Financial Statements
For the Year Ended
December 31, 2011

Toyo Denki USA, Inc.
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For the Year Ended December 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and
Stockholder of Toyo Denki USA, Inc.

We have audited the accompanying balance sheet of Toyo Denki USA, Inc. (a Delaware corporation) as of December 31, 2011, and the related statements of operations and accumulated deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Toyo Denki USA, Inc. as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Goff Backa Alfera & Company, LLC

Goff Backa Alfera and Company, LLC
Pittsburgh, Pennsylvania
March 20, 2012

Toyo Denki USA, Inc.
Balance Sheet
December 31, 2011

ASSETS

CURRENT ASSETS		
Cash	$	1,561,227
Accounts receivable		1,012,668
Inventory		202,320
Prepaid expenses		19,912
Deposits		1,430
TOTAL CURRENT ASSETS		2,797,557
PROPERTY, PLANT AND EQUIPMENT		
Property and equipment		17,830
Factory equipment		13,639
		31,469
Less accumulated depreciation		(19,534)
TOTAL PROPERTY, PLANT AND EQUIPMENT		11,935
TOTAL ASSETS	$	2,809,492

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES		
Accounts payable	$	1,106,966
Accrued loss on contract		725,000
Accrued wages		12,074
Accrued warranty cost		117,527
Accrued paid time off		43,731
Other current liabilities		25,041
TOTAL CURRENT LIABILITIES		2,030,339
STOCKHOLDER'S EQUITY		
Common stock - $.01 par value; 1,000 shares authorized, issued and outstanding		10
Additional paid-in capital		1,914,270
Accumulated deficit after eliminating accumulated deficit of $1,585,720 at May 27, 2008, date of quasi-reorganization		(1,135,127)
TOTAL STOCKHOLDERS' EQUITY		779,153
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	2,809,492

See Independent Auditors' Report and Notes to Financial Statements.

Toyo Denki USA, Inc.
Statement of Operations and Accumulated Deficit
For the Year Ended December 31, 2011

REVENUES	
Contract revenues	$ 690,796
Other revenues	79,006
	769,802
COST OF GOODS SOLD	
Contract costs	493,704
Provision for loss on contract in progress	725,000
TOTAL COST OF GOODS SOLD	1,218,704
GROSS LOSS	(448,902)
GENERAL AND ADMINISTRATIVE EXPENSES	
Payroll expenses	483,977
Professional fees	38,729
Rent	118,887
Office supplies	2,422
Insurance	136,326
Shipping-out expenses	5,287
Travel and entertainment	31,546
Bank service charges	126
Miscellaneous expenses	23,905
Utilities	19,174
Depreciation expense	2,558
Repairs and maintenance	4,382
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	867,319
LOSS FROM OPERATIONS	(1,316,221)
OTHER INCOME (EXPENSE)	
Other income	206
Other expense	(17,842)
TOTAL OTHER INCOME (EXPENSE)	(17,636)
LOSS BEFORE INCOME TAXES	(1,333,857)
PROVISION FOR INCOME TAXES	-
NET LOSS	(1,333,857)
RETAINED EARNINGS, BEGINNING OF YEAR	198,730
ACCUMULATED DEFICIT, END OF YEAR	$ (1,135,127)

Toyo Denki USA, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$(1,333,857)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation	2,558
Accrued loss on contract in progress	725,000
(Increase) decrease in assets:	
Accounts receivable	1,199,493
Inventory	(202,320)
Cost and estimated earnings in excess of billings on uncompleted contracts	201,335
Prepaid expenses	(6,499)
Deposits	(300)
Increase (decrease) in liabilities:	
Accounts payable	(935,347)
Billings in excess of costs and estimated earnings on uncompleted contacts	(656,378)
Accrued wages	980
Accrued paid time off	(43,015)
Accrued warranty cost	117,527
Other current liabilities	7,457
NET CASH USED BY OPERATING ACTIVITIES	(923,366)
CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of Fixed Assets	(10,920)
NET DECREASE IN CASH	(934,286)
CASH AT BEGINNING OF YEAR	2,495,513
CASH AT END OF YEAR	$ 1,561,227

Toyo Denki USA, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2011

Note 1 - Significant Accounting Policies

Nature of Business

Toyo Denki USA, Inc. (the "Company"), supplies electrical propulsion systems to rail car manufacturers in the transit industry. The Company is 100% owned by Toyo Denki Seizo K.K., a Japanese Company, which was founded in 1918 and supplies a complete line of transit products to Japanese and international markets. The Company completed its first order in the American market, supplying propulsion systems to Kinkisharyo International L.L.C. for its Dallas Area Rapid Transit (DART) 20 Light Rail Vehicle (LRV) contract. The Company's second order to supply an additional 48 propulsion systems to Kinkisharyo for use on DART Super Light Rail Vehicles (SLRVs) is complete and under warranty. The Company completed its third order to supply an additional propulsion system for testing onboard one of DART's existing LRVs, which determined that DART's fleet can be "upgraded" with the Company's equipment. In addition, the Company now performs an order for Mitsubishi Electric & Electronics USA, Inc. to supply equipment for use onboard "M8" rail vehicles that will operate on the New York City transit system.

Revenue and Cost Recognition

Contracts to perform equipment assembly are recognized on an accrual basis upon shipment of the related equipment.

The Company recognizes revenues from fixed-price and modified fixed-price long-term contracts on the percentage-of-completion method, measured by the percentage of cost incurred to date to estimated total cost for each contract. Management considers total cost to be the best available measure of progress on long-term contracts. For short-term contracts and assembly-type contracts, the Company recognizes revenues and costs using the sales method.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies and tools. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted long-term contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income, which are recognized in the period in which the revisions are determined. Changes in estimated job profitability resulting from job performance, job conditions, contract penalty provisions, claims, change orders and settlements are accounted for as changes in estimates in the current period. At December 31, 2011, the Company has estimated that it will lose an additional $725,000 on its contract to perform contract assembly and therefore has accrued this amount as a loss.

Income Taxes

Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the changes between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance, when in the opinion of management it is more likely than not that some portion or all of the deferred tax assets will not be realized. This is the case as of December 31, 2011. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Note 1 - Significant Accounting Policies (continued)

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is no longer subject to U.S. federal, state, and local income tax examination for years before 2008.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. As of December 31, 2011, management believes no allowance for doubtful accounts is necessary.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. The cost of additions and improvements is charged to the property accounts, while maintenance and repairs are charged against earnings, or to appropriate jobs, when incurred.

Depreciation

Depreciation is computed using the straight-line method based on the estimated useful lives of the individual assets, which range from five to seven years. Depreciation expense was $2,558 for the year Ended December 31, 2011.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Foreign Currency

The Company's functional currency is the United States dollar. The Company transacts business in foreign currencies. At the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction is measured and recorded in United States dollars using the exchange rate in effect at that time. At each balance sheet date, balances that will be settled in foreign currencies are adjusted to reflect the current exchange rate. Any gain or loss resulting from changes in foreign currency exchange rates is included in net income in the period in which the exchange rate changes.

Consideration of Subsequent Events

The Company has evaluated subsequent events through March 20, 2012, the date on which the financial statements were available to be issued.

Inventory

Inventory, which consists of raw materials, is valued at the lower of cost or market, adjusted for handling costs, with costs determined on the first-in, first-out basis.

Note 1 - Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Company considers securities with maturities of three months or less, when purchased, to be cash equivalents.

Note 2 – Concentration of Risk

The Company maintains cash balances at two financial institutions. One of their accounts is held at a U.S. bank which has unlimited insurance from the Federal Deposit Insurance Corporation (FDIC) through December 31, 2012. Their other account is held at a foreign bank that is not insured. At December 31, 2011, the Company's cash balance held with this bank was $622,356.

Note 3 – Advances to Subcontractors

Typically, the Company purchases parts and provides them to Subcontractors for incorporation into subassemblies which are completed and returned to the Company. In addition, the company makes progress payments to subcontractors and suppliers during the course of their performance of work under the contract. At December 31, 2011, the balance of advances to subcontractors amounted to $500.

Note 4 - Inventories

Inventories consist of the following:

Raw materials	$202,320
Finished goods	-
Total inventories	$202,320

Note 5 – Contract Receivables

Contract receivables consist of the following at December 31, 2011:

Contract receivables	$ 6,756
Retention	1,005,912
	$1,012,668

Note 6 – Major Customer

The Company's contract revenue is concentrated in a large contract from a customer in the Dallas area. The Company had contract revenue from this customer of $683,196 for the year ended December 31, 2011. The retention amount of $1,005,912 included in contract receivables is due from this customer.

Toyo Denki USA, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2011

Note 7– Leases

The Company extended its office/factory space lease to expire July 31, 2017. Monthly payments of $8,485 are required through July, 2012. Beginning in August, 2012 monthly payments increase to $8,942, in August, 2013 increase to $9,580 and remain at that level until the end of the lease. At the end of November, 2011, the Company terminated its apartment lease which would have expired January 31, 2012, and required monthly payments of $805. The Company leases an office printer at a monthly cost of $140 expiring on January 26, 2016.

Total rent charged to expense under these leases for the year ending December 31, 2011 amounted to $118,887 including $2,389 for additional common area maintenance.

Future minimum non-cancelable payments under the leases are as follows:

Year ending December 31,	Amount
2012	$ 105,785
2013	112,174
2014	116,640
2015	116,640
2016	115,100
2017	67,060
Total	$ 633,399

Note 8 – Income Taxes

At December 31, 2011, provision for income taxes consists of:

	December 31, 2011
Current:	
Federal	$ -
State	-
	-
Deferred:	
Federal	$ -
State	-
	-

The effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	December 31, 2011
Deferred tax assets	$ 1,180,000
Deferred tax liabilities	-
Deferred tax asset valuation allowance	(1,180,000)
	$ -

Note 8 – Income Taxes (continued)

The current year change in the tax asset valuation allowance is $580,000. Deferred taxes relate primarily to unused net operating losses, depreciation and amortization. At December 31, 2011, the Company has federal and state operating loss carry forwards of approximately $1,900,000 expiring in various years through 2031.

Note 9 – Retirement Plan

The Company maintains a retirement plan covering all employees. Employees are able to contribute up to $16,500 or 100% of their compensation, whichever is less. In addition, the Company will make a matching contribution equal to 100% up to the first 3% of compensation that the employee defers. Total Company contributions for the year ended December 31, 2011 were $5,643.

Note 10 – Related Party Transactions

During the year Ended December 31, 2011, the Company's 100% owner, Toyo Denki Seizo, K.K. paid the Company $1,000 for support service and $6,645 for miscellaneous parts. At December 31, 2011, the Company owed Toyo Denki Seizo, K.K. $1,022,173 of which $1,017,671 is for parts sold to the Company for use in its Kinkisharyo project and the balance of $4,502 is for miscellaneous parts sold directly to DART.

Note 11 – Stockholder's Equity

The Company issued 1,000 shares of $0.01 par value, common stock to its sole stockholder Toyo Denki Seizo, K.K., for a total consideration of $2,500,000. The amount received in excess of the par value, $2,499,990, was recorded as additional paid-in capital. During 2006, Toyo Denki Seizo, K.K. contributed $1,000,000 as additional paid-in capital to be used in operations.

The Company's Board of Directors approved a corporate readjustment of the Company's accounts in the form of a quasi-reorganization, which was effected May 27, 2008. The accumulated deficit, most of which was a result of the Company's start-up and performance of its initial project in the USA, was reduced by $1,585,720 with a corresponding $1,585,720 reduction of additional paid-in capital. The reduction in accumulated deficit is expected to improve the flexibility of the Company's future management strategy.

Toyo Denki USA, Inc.

Financial Statements
For the Year Ended
December 31, 2012

Toyo Denki USA, Inc.
Index to Financial Statements
For the Year Ended December 31, 2012

CONTENTS

Goff Backa Alfera & Company, LLC
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and
Stockholder of Toyo Denki USA, Inc.

We have audited the accompanying financial statements of Toyo Denki USA, Inc. (a Delaware corporation), which comprise the balance sheet as of December 31, 2012, and the related statements of operations and accumulated deficit, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Toyo Denki USA, Inc. as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Goff Backa Alfera & Company, LLC

Goff Backa Alfera and Company, LLC
Pittsburgh, Pennsylvania
March 26, 2013

Toyo Denki USA, Inc.
Balance Sheet
December 31, 2012

ASSETS		
CURRENT ASSETS		
Cash	$	924,702
Accounts receivable		1,346,677
Inventory		647,261
Costs and estimated earnings in excess of billings on uncompleted contracts		54,925
Prepaid expenses		22,307
TOTAL CURRENT ASSETS		2,995,872
PROPERTY, PLANT AND EQUIPMENT		
Property and equipment		45,941
Factory equipment		13,638
		59,579
Less accumulated depreciation		(26,349)
TOTAL PROPERTY, PLANT AND EQUIPMENT		33,230
TOTAL ASSETS	$	3,029,102
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$	227,143
Accrued loss on contract		330,000
Accrued wages		22,025
Accrued warranty cost		150,000
Accrued paid time off		55,098
Other current liabilities		28,889
TOTAL CURRENT LIABILITIES		813,155
STOCKHOLDER'S EQUITY		
Common stock - $.01 par value; 1,000 shares authorized, issued and outstanding		10
Additional paid-in capital		3,914,270
Accumulated deficit after eliminating accumulated deficit of $1,585,720 at May 27, 2008, date of quasi-reorganization		(1,698,333)
TOTAL STOCKHOLDERS' EQUITY		2,215,947
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	3,029,102

Toyo Denki USA, Inc.
Statement of Operations and Accumulated Deficit
For the Year Ended December 31, 2012

REVENUES	$ 779,543
COST OF GOODS SOLD	
Contract costs	747,985
Revision to accrued loss on contract	(195,000)
TOTAL COST OF GOODS SOLD	552,985
GROSS PROFIT	226,558
GENERAL AND ADMINISTRATIVE EXPENSES	
Payroll expenses	364,219
Professional fees	59,695
Rent	19,886
Office supplies	3,720
Insurance	83,996
Shipping-out expenses	5,359
Travel and entertainment	20,144
Bank service charges	609
Miscellaneous expenses	28,656
Utilities	2,681
Depreciation expenses	5,034
Repairs and maintenance	3,832
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	597,831
LOSS FROM OPERATIONS	(371,273)
OTHER INCOME (EXPENSE)	
Other income	1,145
Warranty costs	(193,078)
TOTAL OTHER INCOME (EXPENSE)	(191,933)
LOSS BEFORE INCOME TAXES	(563,206)
PROVISION FOR INCOME TAXES	-
NET LOSS	(563,206)
ACCUMULATED DEFICIT, BEGINNING OF YEAR	(1,135,127)
ACCUMULATED DEFICIT, END OF YEAR	$ (1,698,333)

Toyo Denki USA, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$	(563,206)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation		6,814
(Increase) decrease in assets:		
Accounts receivable		(334,008)
Costs and estimated earnings in excess of billings on uncompleted contracts		(54,925)
Deposits		930
Inventory		(444,940)
Prepaid expenses		(1,896)
Increase (decrease) in liabilities:		
Accounts payable		(879,822)
Accrued loss on contract		(395,000)
Accrued wages		9,951
Accrued paid time off		11,366
Accrued warranty cost		32,473
Other current liabilities		3,848
NET CASH USED BY OPERATING ACTIVITIES		(2,608,415)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets		(28,110)
CASH FLOWS FROM FINANCING ACTIVITIES		
Additional paid-in capital		2,000,000
NET DECREASE IN CASH		(636,525)
CASH AT BEGINNING OF PERIOD	$	1,561,227
CASH AT END OF PERIOD	$	924,702

Toyo Denki USA, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2012

Note 1 - Significant Accounting Policies

Nature of Business

Toyo Denki USA, Inc. (the "Company"), supplies electrical propulsion systems to rail car manufacturers in the transit industry. The Company is 100% owned by Toyo Denki Seizo K.K., a Japanese Company, which was founded in 1918 and supplies a complete line of transit products to Japanese and international markets. The Company completed its first order in the American market, supplying propulsion systems to Kinkisharyo International L.L.C. for its Dallas Area Rapid Transit (DART) 20 Light Rail Vehicle (LRV) contract. The Company's second order to supply an additional 48 propulsion systems to Kinkisharyo for use on DART Super Light Rail Vehicles (SLRVs) is complete and under warranty. The Company completed its third order to supply an additional propulsion system for testing onboard one of DART's existing LRVs, which determined that DART's fleet can be "upgraded" with the Company's equipment. In addition, the Company now performs an order for Mitsubishi Electric & Electronics USA, Inc. to supply equipment for use onboard "M8" rail vehicles that will operate on the New York City transit system.

Revenue and Cost Recognition

The Company recognizes revenues from fixed-price and modified fixed-price long-term contracts on the percentage-of-completion method, measured by the percentage of cost incurred to date to estimated total cost for each contract. Management considers total cost to be the best available measure of progress on long-term contracts. On October 12, 2012, the Company entered into a contract with Kinkisharyo International L.L.C. for its Los Angeles County Metropolitan Transit Authority (LACMTA) 78 Light Rail Vehicles (LRV) contract. The contract value is $32,308,664 and is expected to be completed by August 1, 2015. The company is to supply 78 propulsion systems and control auxiliary electrical equipment, spare parts, engineering, training and manuals. For short-term contracts and assembly-type contracts, the Company recognizes revenues and costs using the sales method, at the time the product ships and risk of loss transfers to the customer.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies and tools. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted long-term contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income, which are recognized in the period in which the revisions are determined. Changes in estimated job profitability resulting from job performance, job conditions, contract penalty provisions, claims, change orders and settlements are accounted for as changes in estimates in the current period.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Income Taxes

Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the changes between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance, when in the opinion of management it is more likely than not that some portion or all of the deferred tax assets will not be realized. This is the case as of December 31, 2012. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Toyo Denki USA, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2012

Note 1 - Significant Accounting Policies (continued)

Uncertain Tax Positions

The Company has adopted FASB ASC 740-10-25, Accounting for Uncertainty in Income Taxes. The Company will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Company's evaluation on December 31, 2012 revealed no uncertain tax positions that would have a material impact on the financial statements. The 2008 through 2011 tax years remain subject to examination by the IRS and state authorities.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. As of December 31, 2012, management believes no allowance for doubtful accounts is necessary.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. The cost of additions and improvements is charged to the property accounts, while maintenance and repairs are charged against earnings, or to appropriate jobs, when incurred.

Depreciation

Depreciation is computed using the straight-line method based on the estimated useful lives of the individual assets, which range from three to five years. Depreciation expense for the year ended December 31, 2012 was $6, 814 and is included as a component of cost of goods sold and general and administrative expenses on the statement of operations and accumulated deficit.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Foreign Currency

The Company's functional currency is the United States dollar. The Company transacts business in foreign currencies. At the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction is measured and recorded in United States dollars using the exchange rate in effect at that time. At each balance sheet date, balances that will be settled in foreign currencies are adjusted to reflect the current exchange rate. Any gain or loss resulting from changes in foreign currency exchange rates is included in net income in the period in which the exchange rate changes.

Note 1 - Significant Accounting Policies (continued)

Inventory

Inventory is valued at the lower of cost or market, adjusted for handling costs, with costs determined on the first-in, first-out basis. Work in process and finished goods are valued using the "absorption" cost method, a method that includes direct labor, manufacturing overhead, and other production costs.

Cash and Cash Equivalents

The Company considers securities with maturities of three months or less, when purchased, to be cash equivalents.

Consideration of Subsequent Events

The Company has evaluated subsequent events through March 26, 2013, the date on which the financial statements were available to be issued.

Note 2 – Concentration of Risk

The Company maintains cash balances at two financial institutions. One of their accounts is held at a U.S. bank which is insured up to a $250,000 limit through the Federal Deposit Insurance Corporation (FDIC). At December 31, 2012, the Company's cash balance with this bank exceeded the FDIC limit by $233,196. Their other account is held at a foreign bank that is not insured. At December 31, 2012, the Company's cash balance with this bank was $441,506.

Note 3 - Inventories

Inventories consist of the following at December 31, 2012:

Raw materials	$ 488,690
Work in process	158,571
Total inventories	$ 647,261

Note 4 – Uncompleted Contracts

Costs and billings on uncompleted contracts are summarized as follows at December 31, 2012:

Costs incurred on uncompleted contracts at year end	$ 54,008
Estimated earnings	917
	54,925
Less: billings on uncompleted contracts	-
	$ 54,925

Note 4 – Uncompleted Contracts (continued)

Presented in the accompanying balance sheet as:

Costs and estimated earnings in excess of billings on uncompleted contracts	$ 54,925
Billings in excess of costs and estimated earnings on uncompleted contracts	-
	$ 54,925

Note 5 – Accounts Receivable

Accounts receivables consist of the following at December 31, 2012:

Accounts receivables	$ 340,765
Retention	1,005,912
	$ 1,346,677

Note 6 – Major Customer

During 2012, the Company had revenue from 1 customer of $349,406, of this amount $270,963 remains in accounts receivable at December 31, 2012. Additionally, at December 31, 2012, the Company has a retention receivable in the amount of $1,005,912 due from a different customer, which relates to a contract completed during 2011. This retention is expected to be collected in 2013.

Note 7– Leases

The Company extended its office/factory space lease through July 31, 2017. Monthly payments of $8,485 were required through July 2012. Beginning in August 2012 monthly payments increased to $8,942, and in August 2013 will increase to $9,580 and remain at that level until the end of the lease. The Company also leases an office printer at a monthly cost of $140 through January 26, 2016.

Total rent expense under these leases for the year ended December 31, 2012 amounted to $104,563, and is included as a component of cost of goods sold and general and administrative expenses on the statement of operations and accumulated deficit.

Future minimum non-cancelable payments under the leases are as follows:

Year ending December 31,	Amount
2013	$ 112,174
2014	116,640
2015	116,640
2016	115,100
2017	67,060
Total	$ 527,614

Toyo Denki USA, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2012

Note 8 – Income Taxes

Provision for income taxes consists of at December 31, 2012:

Current:	
Federal	$ -
State	-
	-
Deferred:	
Federal	$ -
State	-
	-

The effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

Deferred tax assets	$ 1,460,000
Deferred tax liabilities	-
Deferred tax asset valuation allowance	(1,460,000)
	$ -

The current year change in the tax asset valuation is $280,000. Deferred taxes relate primarily to unused net operating losses, depreciation and amortization. At December 31, 2012, the Company has federal and state operating loss carry forwards of approximately $2,800,000 expiring in various years through 2032.

Note 9 - Backlog

The Company's backlog of revenue they expect to realize from work to be performed on uncompleted contracts in progress at December 31, 2012 amounted to $32,253,739.

Note 10 – Retirement Plan

The Company maintains a retirement plan covering all employees. Employees are able to contribute up to $17,000 or 100% of their compensation, whichever is less. In addition, the Company will make a matching contribution equal to 100% up to the first 3% of compensation that the employee defers. Total Company contributions for the year ended December 31, 2012 were $10,816.

Note 11 – Related Party Transactions

During the year ended December 31, 2012, the Company's 100% owner, Toyo Denki Seizo, K.K. paid the Company $14,215 for miscellaneous parts. For the year ended December 31, 2012, the Company paid $1,094,829 and owed Toyo Denki Seizo, K.K. $11,510 for parts sold to the Company for use in its Kinkisharyo project.

Note 12 – Stockholder's Equity

The Company issued 1,000 shares of $0.01 par value, common stock to its sole stockholder Toyo Denki Seizo, K.K., for a total consideration of $2,500,000. The amount received in excess of the par value, $2,499,990, was recorded as additional paid-in capital. During 2006, Toyo Denki Seizo, K.K. contributed $1,000,000 as additional paid-in capital to be used in operations. During 2012, Toyo Denki Seizo, K.K. contributed $2,000,000 as additional paid-in capital to be used in operations.

The Company's Board of Directors approved a corporate readjustment of the Company's accounts in the form of a quasi-reorganization, which was effective May 27, 2008. The accumulated deficit, most of which was a result of the Company's start-up and performance of its initial project in the USA, was reduced by $1,585,720 with a corresponding $1,585,720 reduction of additional paid-in capital. The reduction in accumulated deficit is expected to improve the flexibility of the Company's future management strategy.

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March 26, 2013

To the Board of Directors
Toyo Denki USA, Inc.

We have audited the financial statements of Toyo Denki USA, Inc. for the year ended December 31, 2012, and have issued our report thereon dated March 26, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 8, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Toyo Denki USA, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management's estimate of the costs to complete on uncompleted contracts is based on management's evaluation of the progress of uncompleted contracts and the remaining work left to be done. We evaluated the key factors and assumptions used to develop the estimated costs to complete in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the accrued loss on the Mitsubishi M8 project is based on management's assessment of the costs remaining on the project, including the amount of overhead to be absorbed by the project. We evaluated the key factors and assumptions used to develop the accrued loss on this project to determine that it was reasonable in relation to the financial statements taken as a whole.

Management's estimate of the deferred tax assets. The deferred tax assets are recorded based on the differences between the book and tax basis in assets and liabilities. At the end of the year, management determined that there was a need to reserve a valuation allowance against the entire deferred tax asset due to uncertainty of the ability to use the assets to offset future taxable income.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. A schedule of adjusting entries is attached to this letter.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 26, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We also issued a letter dated March 26, 2013, relating to internal control matters.

This information is intended solely for the use of Board of Directors and management of Toyo Denki USA, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Goff Backa Alfera & Company, LLC

Goff Backa Alfera & Company, LLC

Client: ***TOY8301 - Toyo Denki USA, Inc.***
Engagement: ***AUD - Toyo Denki USA, Inc.***
Trial Balance: ***TB***
Workpaper: ***3700.01 - Adjusting Journal Entries Report***

Account		Description	Debit	Credit
Adjusting Journal Entries JE # 1				
To adjust prepaid insurance to actual				
	1450	Prepaid expenses	11,242.00	
	6188	Insurance:6188 + Commercial Insurance		11,242.00
Total			**11,242.00**	**11,242.00**
Adjusting Journal Entries JE # 2				
To add back 250 speed sensors returned from DART				
	1120	Inventory Asset	30,150.00	
	5010	Materials - Cost of Goods Sold		30,150.00
Total			**30,150.00**	**30,150.00**
Adjusting Journal Entries JE # 3				
To correct amount billed in 2013, but recorded as 2012 revenue.				
	4010	Spares parts income	18,700.00	
	1200	Accounts Receivable		18,700.00
Total			**18,700.00**	**18,700.00**
Adjusting Journal Entries JE # 4				
To add back uncleared check that was not sent and add the amount to AP				
	1000	PNC checking	14,250.00	
	2000	Accounts Payable		14,250.00
Total			**14,250.00**	**14,250.00**
Adjusting Journal Entries JE # 5				
To adjust inventory				
	1121	Inventory - M8	29,659.00	
	1121	Inventory - M8	207,677.00	
	1123	Factory Overhead - M8	269,110.00	
	5010	Materials - Cost of Goods Sold		506,446.00
Total			**506,446.00**	**506,446.00**
Adjusting Journal Entries JE # 6				
To adjust inventory				
	5010	Materials - Cost of Goods Sold	620,906.00	
	1121	Inventory - M8		237,337.00
	1122	Direct Labor - M8		30,258.00
	1123	Factory Overhead - M8		67,181.00
	1124	Indirect Labor		286,130.00
Total			**620,906.00**	**620,906.00**

Client: ***TOY8301 - Toyo Denki USA, Inc.***
Engagement: ***AUD - Toyo Denki USA, Inc.***
Trial Balance: ***TB***
Workpaper: ***3700.01 - Adjusting Journal Entries Report***

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 7			
To adjust accrued loss on contracts			
5028	Provision for losses on contracts	316,205.00	
2500	Accrued losses on contracts		316,205.00
Total		**316,205.00**	**316,205.00**
Adjusting Journal Entries JE # 8			
To adjuste Direct and indirect labor			
1124	Indirect Labor	74,670.00	
1122	Direct Labor - M8		74,670.00
Total		**74,670.00**	**74,670.00**
Adjusting Journal Entries JE # 9			
to adjust acct 1123 to tie to calculated balance			
5010	Materials - Cost of Goods Sold	26,281.00	
1123	Factory Overhead - M8		26,281.00
Total		**26,281.00**	**26,281.00**
Adjusting Journal Entries JE # 10			
To correct accrued loss on M8 project			
2500	Accrued losses on contracts	570,000.00	
5028	Provision for losses on contracts		570,000.00
Total		**570,000.00**	**570,000.00**
Adjusting Journal Entries JE # 11			
To adjuste the accrued warranty			
8000	Other Expenses	11,247.00	
2400	Accrued Warranty Cost		11,247.00
Total		**11,247.00**	**11,247.00**
Adjusting Journal Entries JE # 12			
To adjust deferrred taxes			
1460	Deferred Tax Asset	110,000.00	
1470	Deferred Valuation Allowance		110,000.00
Total		**110,000.00**	**110,000.00**
Adjusting Journal Entries JE # 13			
To adjust the provision for loss to 5200.55			
5015	Non-contract costs of goods sold	16,205.00	
5028	Provision for losses on contracts		16,205.00
Total		**16,205.00**	**16,205.00**

Goff
Backa
Alfera &
Company, LLC

Certified Public Accountants

3325 Saw Mill Run Blvd.
Pittsburgh, PA 15227-2736
412/885-5045
Fax 412/885-4870
www.gbaco.com

To the Board of Directors
and Management

In planning and performing our audit of the financial statements of Toyo Denki USA, Inc. as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Toyo Denki USA, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, however, as discussed below, we identified a certain matter that relates to internal control that was considered to be of a lesser magnitude.

Inventory, and overheads

The Company prepares an allocation where they capitalize overhead costs into their inventory accounts. When the goods that are manufactured are shipped the company removes a portion of the overheads related to these manufactured goods and charges them to cost of goods sold. Subsequent to year-end based on our recommendation the company reviewed the balance of these allocated costs that remained in the inventory accounts and prepared a journal entry to reduce the balance included in inventory and record a corresponding increase in the cost of goods sold. The entry prepared by the company resulted in a net change in the inventory and cost of goods sold accounts by approximately $115,000.

Review of accrued loss on contracts

During 2011 the Company recorded an accrued loss on the M8 project. Quarterly throughout 2012 and at year-end the Company performed an analysis on this project to estimate the remaining loss under the contract. When the year-end analysis was performed by the Company management was using 2012

historical data to forecast the 2013 results, and they neglected to reduce the accrued loss by the portion of the contract that had been shipped prior to year-end. When the Company updated their estimate of the accrued loss using 2013 expected results, and took into account the costs of the goods that had been shipped they reduced the remaining liability by approximately $250,000.

Deferred Income Taxes

The Company has requested Goff Backa Alfera & Company (GBAC) to assist in its calculation of the current and deferred tax provision in accordance with FASB Accounting Standards Codification, 740, *Income Taxes* and to assist in the preparation of the required disclosures. The Program Manager was designated by the Company as the individual to oversee, understand, and take responsibility for the preparation of the calculation, related adjusting journal entries, and corresponding disclosures. The preparation of these calculations did not result in any journal entries. The deferred tax assets are completely offset by a valuation allowance. Because GBAC was an integral part in assisting the Company with the accounting and disclosure requirements of the standards we felt it was necessary to communicate this to management.

Year-end cutoff

A journal entry had to be prepared to correct a sales transaction for $18,700 that occurred during 2013. This entry was entered into the accounting software with an incorrect date in 2012 and as a result the revenue was recorded in the incorrect period. Additionally, there was a check written during 2012 for $14,250 to a supplier but this check was not mailed as of the date of our onsite fieldwork. Because this check had not been mailed prior to year-end it should not have been recorded as a 2012 transaction. The Company should review all transactions near year end to determine that they are recorded within the correct accounting period.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Goff Backa Alfera & Company, LLC

Goff Backa Alfera & Company, LLC
Pittsburgh, Pennsylvania
March 26, 2013

February 17, 2014

Mr. Sun Huaikai
Changchun Railway Vehicles Co., LTD.
1120 Avenue of the Americas
New York, NY 10036

Subject: RFP No. CAP 27-10, Part 2 - MBTA Questions to be addressed by Vendor:

Dear Sun Huaikai:

Below are UTCRAS replies to the (12) questions from the MBTA.

1.) MA DBE Certification.
2.) UTCRAS Owner: Betty Scott, 610-983-0102
3.) UTCRAS Officers: Frank R. Ursone, 610-328-1100 x11
Betty Scott, 610-983-0102

4.) UTCRAS has not had a contractual relationship with MBTA.
5.) UTCRAS owners have never been in default of any obligations under a contract with the MBTA.
6.) UTCRAS owners have never been convicted of a Felony of Federal, State or Local laws.
7.) There are no pending lawsuits against the business.

8.) Francis Hall Insurance Services, Agent: Robert Hall
1065 Andrew Drive, Suite B1, West Chester, PA 19380
Phone # 610-696-5100, Fax # 610-696-9358
Account Name: UTCRAS, Inc.

9.) Business References attached.
10.) UTCRAS owners have never filed for bankruptcy.
11.) Three (3) years UTCRAS financial statements are attached.
12.) UTCRAS Business Code of Ethics to follow.

Sincerely,

Frank R. Ursone

Frank R. Ursone
President Rail Systems Group

cc: Anthony R. Ursone, UTCRAS
Charles E. Mullen, UTCRAS

ASSOCIATION OF AMERICAN RAILROADS
QUALITY ASSURANCE PROGRAM CERTIFICATION

THIS CONFIRMS THAT

UTC/RAS

HAS MET THE REQUIREMENTS OF THE ASSOCIATION OF AMERICAN RAILROADS
QUALITY ASSURANCE PROGRAM AS SPECIFIED IN M-1003

CERTIFICATE NUMBER: QA-UTC **LOCATION:** MORTON, PA

PRODUCT/SERVICE: B23 Reconditioner of Locomotive Journal Roller Bearings, B33 Wheel and Axle Shop (1,2B,4,5,8,8A,9) and B69 Locomotive Traction Motor/Wheel Combo Assembly

CERTIFICATION DATE: 06/13/2012 **EXPIRATION DATE:** 06/13/2015

APPROVED: Thomas J. Stehura
(Executive Director of Rules and Standards)

APPROVED: Donald W Friedbach
(Chairman, Quality Assurance Committee)

UTCRAS

AAR CERTIFIED - Wheel, Axle, & Bearing Shop

Legal Name:	UTCRAS, Inc.	Phone: 610-328-1100
Address:	501 Highland Avenue	Fax: 610-544-6979
	Morton, PA 19070	Fed ID: 23-3080861
		Dunns: 141918560

Corporation: Incorporated in State of Pennsylvania
Date Established: 1983
Officers: Betty A. Scott, Chairperson& CEO
Frank R. Ursone, President
Plant Manager: Edward McManamy
Tax Exempt: Blanket Exemption Certificate attached
Type of Business: Manufacture and remanufacture railroad wheel assemblies for railroad car builders, transit authorities and class 1 railroads

Credit Reference:

Meridian Bank	Checking Acct .No: 4007597
92 Lancaster Avenue	Contact: Jack Devenney
West Chester, PA 19382	Phone: 484-905-5990
	Fax: 484-905-5998

Trade References:

Alp Rail Industries	Contact:	Loren Cairns
273 19th Avenue	Phone:	450-472-9291
Two Mountains, Quebec, Canada J7R4C9	Fax:	450-472-9379
TSS, Inc.	Contact:	Jeff Scofield
85 Abbottsford Drive	Phone:	910-585-2498
Pinehurst, NC 28374	Fax:	910-687-0032
Walco	Contact:	Mark Amato
303 Allens Avenue	Phone:	401-640-7169
Providence, RI 02905	Fax:	401-941-4451
Precision Roller Bearing Industries	Contact:	Steve Younce
P. O. Box 2025	Phone:	270-735-1912
Elizabethtown, KY 42702	Fax:	270-735-1513

Accounts Payable Contact: Linda Kinworthy 610-328-1100

UTCRAS INC
Balance Sheet
December 31, 2010

ASSETS

CURRENT ASSETS		
CASH	$ 22,911.25	
ACCOUNTS RECEIVABLE - OTHER	40,928.25	
ACCOUNTS RECEIVABLE	1,253,397.79	
ALLOWANCE FOR BAD DEBT	(25,000.00)	
DUE FROM (TO) MORTON COMMON	(119,945.90)	
INVENTORY	2,607,389.00	
PREPAID REAL ESTATE TAXES	23,401.59	
EXCHANGE ACCOUNT	1,031.84	
EMPLOYEE LOAN	4,925.00	
ADVANCE S J PERSSON	3,707.02	
PREPAID EXPENSES/DEPOSIT	33,661.48	
TOTAL CURRENT ASSETS		3,846,407.32
PROPERTY AND EQUIPMENT		
BUILDING-MACHINE SHOP	2,010.00	
PLANT EQUIPMENT	2,378,747.36	
OFFICE FURNITURE & EQUIPMENT	73,922.99	
MEXICAN EQUIP CAPITAL	115,000.00	
TRUCKS AND AUTOS	59,325.82	
TOTAL PROPERTY AND EQUIPMENT	2,629,006.17	
LESS ACCUMULATED DEPRECIATIO	(1,951,514.98)	
NET PROPERTY AND EQUIPMENT		677,491.19
OTHER ASSETS		
LOAN COSTS	36,905.84	
ACCUM AMORT BUILD LOAN COST	(923.98)	
NET LOAN COSTS	35,981.86	
TOTAL OTHER ASSETS		35,981.86
TOTAL ASSETS		$ 4,559,880.37

UTCRAS INC
Balance Sheet
December 31, 2010

LIABILITIES AND STOCKHOLDERS' EQUITY
LIABILITIES

CURRENT LIABILITIES		
MERIDIAN - LOC	$ 1,026,000.00	
LOAN PAYABLE SHAREHOLDER-BA	45,011.00	
ACCOUNTS PAYABLE	523,257.35	
AMERICAN EXPRESS GOLD	8,136.25	
AMERICAN EXPRESS PLUM	8,361.89	
CAPITAL ONE	4,428.08	
CHASE BANK	11,306.99	
CUSTOMER DEPOSIT	94,862.91	
PAYROLL TAXES AND WITHHOLDI	773.57	
ACCR'D PAYROLL TAXES	212.40	
ACCRUED EXPENSE	16,777.91	
ACCRUED PAYROLL	40,876.69	
ACCRUED PROFESSIONAL FEES	4,800.00	
ACCRUED PROFIT SHARING EXPEN	100,000.00	
ACCRUED INTEREST	72,920.04	
ACCRUED VACATION & HOLIDAY	44,362.80	
TOTAL CURRENT LIABILITIES		2,002,087.88
LONG-TERM LIABILITIES		
MERIDIAN - TERM LOAN	985,345.64	
LEASE PAYABLE YALE FORKLIFT	30,000.00	
TOTAL LONG-TERM LIABILITIES		1,015,345.64
TOTAL LIABILITIES		3,017,433.52
STOCKHOLDERS' EQUITY		
Common Stock	1,000.00	
RETAINED EQUITY	1,473,056.74	
Net Income	68,390.11	
TOTAL STOCKHOLDERS' EQUITY		1,542,446.85
TOTAL LIABILITIES AND EQUITY		$ 4,559,880.37

UTCRAS INC
Income Statement
For the Twelve Months Ending December 31, 2010

	Current Month		Year to Date	
REVENUES				
SALES	6,750,350.39	99.65	6,750,350.39	99.65
SALES RETURN AND ALLOWANCE	(13,774.93)	(0.20)	(13,774.93)	(0.20)
SCRAP INCOME	37,560.05	0.55	37,560.05	0.55
NET REVENUES	6,774,135.51	100.00	6,774,135.51	100.00
COST OF SALES				
MATERIAL	4,738,267.59	69.94	4,738,267.59	69.94
DIRECT LABOR	1,165,968.29	17.21	1,165,968.29	17.21
LABOR-MAINT DEPT	9,235.63	0.14	9,235.63	0.14
FREIGHT	28,888.30	0.43	28,888.30	0.43
MANUFACTURING OVERHEAD				
REPAIRS/MAINT - DOOR POCKETS	7,251.54	0.11	7,251.54	0.11
401 K EMPLOYER SHOP	12,490.28	0.18	12,490.28	0.18
401K EMPLOYER-MAINT DEPT	815.94	0.01	815.94	0.01
SAFETY EXPENSE	1,779.87	0.03	1,779.87	0.03
QA/QC EXPENSE	2,127.98	0.03	2,127.98	0.03
SUPPLIES - WELDING/FABRICATIN	2,682.25	0.04	2,682.25	0.04
SHOP SUPPLIES & EXPENSES	25,585.11	0.38	25,585.11	0.38
SHOP OFFICE SUPPLIES	809.97	0.01	809.97	0.01
SHOP TOOL EXPENSE	7,002.19	0.10	7,002.19	0.10
EQUIP RENTAL/LEASE SHOP	1,381.32	0.02	1,381.32	0.02
TRUCK EXPENSE	2,766.56	0.04	2,766.56	0.04
P/R TAX EXP - SHOP	11,493.17	0.17	11,493.17	0.17
PR TAX - MAINT DEPT	593.80	0.01	593.80	0.01
EMPLOYEE BENEFITS	17,909.27	0.26	17,909.27	0.26
HEALTH INSURANCE SHOP	23,604.95	0.35	23,604.95	0.35
HEALTH INS-MAINT DEPT	1,105.14	0.02	1,105.14	0.02
REPAIRS/MAINT - WELDING/FAB	2,201.87	0.03	2,201.87	0.03
REPAIRS & MAINT/SHOP	8,500.86	0.13	8,500.86	0.13
PROPERTY & LIABILITY-SHOP	11,654.38	0.17	11,654.38	0.17
TRUCK/AUTO INS	257.56	0.00	257.56	0.00
WORKERS COMP-SHOP	11,291.16	0.17	11,291.16	0.17
EPL INSURANCE & AGENCY FEE	466.52	0.01	466.52	0.01
DEPRECIATION/SHOP	23,022.48	0.34	23,022.48	0.34
RENT - SHOP	13,975.02	0.21	13,975.02	0.21
WATER AQUA PA	266.86	0.00	266.86	0.00
PHILA/GAS & ELECTRIC	14,148.69	0.21	14,148.69	0.21
TENANT / GAS & ELECTRIC	(1.00)	0.00	(1.00)	0.00
R/E TAXES/ SHOP-UTC	7,587.41	0.11	7,587.41	0.11
TOTAL COST OF SALES	6,155,130.96	90.86	6,155,130.96	90.86
GROSS PROFIT	619,004.55	9.14	619,004.55	9.14
GENERAL & ADMINISTRATIVE				
SALARIES - OFFICE	57,696.71	0.85	57,696.71	0.85
MARKETING/SALES EXPENSE	15,673.05	0.23	15,673.05	0.23
SALESMAN SALARY	3,200.00	0.05	3,200.00	0.05
P/R TAX EXP OFFICE	1,445.55	0.02	1,445.55	0.02
PR TAX - MARKETING	188.24	0.00	188.24	0.00
CREDIT CARD EXP-BAS	8,838.05	0.13	8,838.05	0.13
OFFICERS LIFE INSURANCE	9,348.77	0.14	9,348.77	0.14
HEALTH INSURANCE OFFICE	6,637.61	0.10	6,637.61	0.10
REPAIR/MAINT/OFFICE	5,165.00	0.08	5,165.00	0.08
PROPERTY & LIABILITY-OFFICE	4,289.93	0.06	4,289.93	0.06
401 K EMPLOYER OFFICE	5,022.01	0.07	5,022.01	0.07

UTCRAS INC
Income Statement
For the Twelve Months Ending December 31, 2010

	Current Month		Year to Date	
TRAVEL/LODGING	1,752.27	0.03	1,752.27	0.03
GAS/TOLLS/PARKING	1,050.79	0.02	1,050.79	0.02
POSTAGE	419.25	0.01	419.25	0.01
WORKERS COMP-OFFICE	470.46	0.01	470.46	0.01
AUTO LEASE RENTAL	10,463.83	0.15	10,463.83	0.15
AUTO EXPENSE	4,840.91	0.07	4,840.91	0.07
MEALS & ENTERTAINMENT	10,083.26	0.15	10,083.26	0.15
COMMISSION/CONSULTING FEES	5,000.00	0.07	5,000.00	0.07
PROFESSIONAL FEES	26,504.87	0.39	26,504.87	0.39
BUSINESS DEVELOPMENT	20.00	0.00	20.00	0.00
ADVERTISING	1,850.00	0.03	1,850.00	0.03
BANK FEES	810.40	0.01	810.40	0.01
DUES & SUBSCRIPTIONS	2,671.45	0.04	2,671.45	0.04
EDUCATIONAL/TRAINING	498.00	0.01	498.00	0.01
OFFICE EXPENSE	9,970.59	0.15	9,970.59	0.15
RENT-OFFICE	329,918.31	4.87	329,918.31	4.87
EQUIPMENT RENTAL OFFICE	929.57	0.01	929.57	0.01
DEPRECIATION/OFFICE	692.55	0.01	692.55	0.01
TELEPHONE	6,102.70	0.09	6,102.70	0.09
TRASH REMOVAL	1,489.10	0.02	1,489.10	0.02
TAXES OTHER	612.00	0.01	612.00	0.01
CONTRIBUTIONS	700.00	0.01	700.00	0.01
TOTAL GENERAL & ADMIN	534,355.23	7.89	534,355.23	7.89
OTHER REVENUE AND (EXPENSES)				
AMORTIZATION	(923.98)	(0.01)	(923.98)	(0.01)
INTEREST-MERIDIAN LOC	(6,127.50)	(0.09)	(6,127.50)	(0.09)
INTEREST-MERIDIAN TERM LOAN	(8,018.54)	(0.12)	(8,018.54)	(0.12)
INTEREST OTHER	(399.00)	(0.01)	(399.00)	(0.01)
INTEREST INCOME	79.69	0.00	79.69	0.00
TOTAL OTHER REVENUE/(EXP)	(15,389.33)	(0.23)	(15,389.33)	(0.23)
MORTON RENTAL INCOME	176.92	0.00	176.92	0.00
PROPERTY & LIABILITY-RENTAL	(647.46)	(0.01)	(647.46)	(0.01)
R/E TAXES/ RENTAL	(399.34)	(0.01)	(399.34)	(0.01)
NET INCOME (LOSS)	$ 68,390.11	1.01	$ 68,390.11	1.01

UTCRAS INC
Balance Sheet
December 31, 2011

ASSETS

CURRENT ASSETS

CASH	$ 425,536.32	
ACCOUNTS RECEIVABLE - OTHER	35,182.00	
ACCOUNTS RECEIVABLE	1,527,760.07	
ALLOWANCE FOR BAD DEBT	(25,000.00)	
DUE FROM (TO) MORTON COMMON	29,324.24	
INVENTORY	1,801,725.75	
PREPAID REAL ESTATE TAXES	21,515.93	
PREPAID EXPENSES	457.93	
EXCHANGE ACCOUNT	75,059.31	
EMPLOYEE LOAN	4,925.00	
PREPAID EXPENSES/DEPOSIT	86,765.16	
TOTAL CURRENT ASSETS		3,983,251.71

PROPERTY AND EQUIPMENT

BUILDING-MACHINE SHOP	5,868.93	
BUILDING - TRUCK SHOP	1,111.62	
PLANT EQUIPMENT	2,919,475.08	
OFFICE FURNITURE & EQUIPMENT	81,570.89	
MEXICAN EQUIP CAPITAL	115,000.00	
TRUCKS AND AUTOS	59,325.82	
TOTAL PROPERTY AND EQUIPMENT	3,182,352.34	
LESS ACCUMULATED DEPRECIATIO	(2,107,615.90)	
NET PROPERTY AND EQUIPMENT		1,074,736.44

OTHER ASSETS

LOAN COSTS	36,959.08	
ACCUM AMORT BUILD LOAN COST	(8,315.86)	
NET LOAN COSTS	28,643.22	
TOTAL OTHER ASSETS		28,643.22
TOTAL ASSETS		$ 5,086,631.37

UTCRAS INC
Balance Sheet
December 31, 2011

LIABILITIES AND STOCKHOLDERS' EQUITY
LIABILITIES

CURRENT LIABILITIES		
ACCOUNTS PAYABLE	$ 626,855.10	
AMERICAN EXPRESS GOLD	16,724.75	
AMERICAN EXPRESS PLUM	18,877.30	
CAPITAL ONE	4,837.48	
CHASE BANK	7,075.34	
CUSTOMER DEPOSIT	275,311.20	
PAYROLL TAXES AND WITHHOLDI	1,478.27	
ACCRUED EXPENSE	152,952.01	
ACCRUED PAYROLL	37,603.92	
ACCRUED PROFESSIONAL FEES	15,000.00	
ACCRUED PROFIT SHARING EXPEN	125,000.00	
ACCRUED INTEREST	68,691.33	
ACCRUED VACATION & HOLIDAY	114,122.91	
TOTAL CURRENT LIABILITIES		1,464,529.61
LONG-TERM LIABILITIES		
MERIDIAN - TERM LOAN	810,776.53	
LEASE PAYABLE-WELLS FARGO CN	465,634.94	
LEASE PAYABLE-WELLS FARGO	14,246.34	
LEASE PAYABLE YALE FORKLIFT	22,525.82	
TOTAL LONG-TERM LIABILITIES		1,313,183.63
TOTAL LIABILITIES		2,777,713.24
STOCKHOLDERS' EQUITY		
Common Stock	1,000.00	
STOCKHOLDERS DISTRIBUTIONS	(25,429.00)	
RETAINED EQUITY	1,586,457.85	
Net Income	746,889.28	
TOTAL STOCKHOLDERS' EQUITY		2,308,918.13
TOTAL LIABILITIES AND EQUITY		$ 5,086,631.37

UTCRAS
Income Statement
For the Twelve Months Ending December 31, 2011

	Current Month		Year to Date	
REVENUES				
SALES	10,184,178.68	97.89	10,184,178.68	97.89
SALES RETURN AND ALLOWANCE	(37,669.50)	(0.36)	(37,669.50)	(0.36)
SCRAP INCOME	256,660.46	2.47	256,660.46	2.47
NET REVENUES	10,403,169.64	99.99	10,403,169.64	99.99
COST OF SALES				
MATERIAL	4,611,765.88	44.33	4,611,765.88	44.33
DIRECT LABOR	1,292,061.83	12.42	1,292,061.83	12.42
LABOR-MAINT DEPT	78,747.46	0.76	78,747.46	0.76
FREIGHT	207,849.06	2.00	207,849.06	2.00
MANUFACTURING OVERHEAD				
CONSULTANT/1099	2,111.25	0.02	2,111.25	0.02
VACATION & HOLIDAY	195,386.80	1.88	195,386.80	1.88
401 K EMPLOYER SHOP	106,958.37	1.03	106,958.37	1.03
401K EMPLOYER-MAINT DEPT	8,826.73	0.08	8,826.73	0.08
SAFETY EXPENSE	6,835.17	0.07	6,835.17	0.07
QA/QC EXPENSE	22,480.16	0.22	22,480.16	0.22
SUPPLIES - WELDING/FABRICATIN	16,821.26	0.16	16,821.26	0.16
SUPPLIES - TRUCK SHOP	82.83	0.00	82.83	0.00
SHOP SUPPLIES & EXPENSES	79,470.91	0.76	79,470.91	0.76
SHOP OFFICE SUPPLIES	4,298.04	0.04	4,298.04	0.04
SHOP TOOL EXPENSE	28,970.93	0.28	28,970.93	0.28
LAB TESTING	1,000.00	0.01	1,000.00	0.01
EQUIP RENTAL/LEASE SHOP	72,442.71	0.70	72,442.71	0.70
TRUCK EXPENSE	3,132.20	0.03	3,132.20	0.03
P/R TAX EXP - SHOP	124,384.61	1.20	124,384.61	1.20
PR TAX - MAINT DEPT	6,995.11	0.07	6,995.11	0.07
EMPLOYEE BENEFITS	27,581.62	0.27	27,581.62	0.27
HEALTH INSURANCE SHOP	280,090.86	2.69	280,090.86	2.69
HEALTH INS-MAINT DEPT	16,473.22	0.16	16,473.22	0.16
REPAIRS/MAINT - WELDING/FAB	215.00	0.00	215.00	0.00
REPAIRS & MAINT/SHOP	165,473.86	1.59	165,473.86	1.59
PROPERTY & LIABILITY-SHOP	105,389.50	1.01	105,389.50	1.01
PROPERTY & LIABILITY-OFFICE	5,525.48	0.05	5,525.48	0.05
TRUCK/AUTO INS	3,947.11	0.04	3,947.11	0.04
WORKERS COMP-SHOP	93,562.07	0.90	93,562.07	0.90
EPL INSURANCE & AGENCY FEE	6,197.40	0.06	6,197.40	0.06
DEPRECIATION/SHOP	150,207.01	1.44	150,207.01	1.44
RENT - SHOP	120,000.00	1.15	120,000.00	1.15
WATER AQUA PA	4,185.16	0.04	4,185.16	0.04
PHILA/GAS & ELECTRIC	145,153.89	1.40	145,153.89	1.40
R/E TAXES/ SHOP-UTC	62,916.74	0.60	62,916.74	0.60
TOTAL COST OF SALES	8,057,540.23	77.45	8,057,540.23	77.45
GROSS PROFIT	2,345,629.41	22.55	2,345,629.41	22.55
GENERAL & ADMINISTRATIVE				
SALARIES - OFFICE	419,245.98	4.03	419,245.98	4.03
MARKETING/SALES EXPENSE	146,405.08	1.41	146,405.08	1.41
SALESMAN SALARY	25,500.00	0.25	25,500.00	0.25
P/R TAX EXP OFFICE	28,539.03	0.27	28,539.03	0.27
PR TAX - MARKETING	9,080.13	0.09	9,080.13	0.09
OFFICERS LIFE INSURANCE	62,319.42	0.60	62,319.42	0.60
HEALTH INSURANCE OFFICE	74,407.45	0.72	74,407.45	0.72
REPAIR/MAINT/OFFICE	21,516.41	0.21	21,516.41	0.21

UTCRAS
Income Statement
For the Twelve Months Ending December 31, 2011

	Current Month		Year to Date	
401 K EMPLOYER OFFICE	57,692.71	0.55	57,692.71	0.55
TRAVEL/LODGING	58,546.29	0.56	58,546.29	0.56
GAS/TOLLS/PARKING	9,624.01	0.09	9,624.01	0.09
POSTAGE	3,610.03	0.03	3,610.03	0.03
WORKERS COMP-OFFICE	3,898.42	0.04	3,898.42	0.04
AUTO LEASE RENTAL	9,374.40	0.09	9,374.40	0.09
AUTO EXPENSE	44,772.16	0.43	44,772.16	0.43
MEALS & ENTERTAINMENT	63,206.23	0.61	63,206.23	0.61
COMMISSION/CONSULTING FEES	29,024.27	0.28	29,024.27	0.28
PROFESSIONAL FEES	137,523.75	1.32	137,523.75	1.32
BUSINESS DEVELOPMENT	434.27	0.00	434.27	0.00
ADVERTISING	66,736.92	0.64	66,736.92	0.64
BANK FEES	1,983.01	0.02	1,983.01	0.02
DUES & SUBSCRIPTIONS	21,560.55	0.21	21,560.55	0.21
EDUCATIONAL/TRAINING	1,420.19	0.01	1,420.19	0.01
OFFICE EXPENSE	62,810.63	0.60	62,810.63	0.60
RENT-OFFICE	36,000.00	0.35	36,000.00	0.35
EQUIPMENT RENTAL OFFICE	9,718.69	0.09	9,718.69	0.09
DEPRECIATION/OFFICE	5,893.91	0.06	5,893.91	0.06
TELEPHONE	34,139.54	0.33	34,139.54	0.33
TRASH REMOVAL	12,438.71	0.12	12,438.71	0.12
MISCELLANEOUS	190.00	0.00	190.00	0.00
BAD DEBTS	40,928.25	0.39	40,928.25	0.39
TAXES OTHER	3,697.22	0.04	3,697.22	0.04
CONTRIBUTIONS	2,750.00	0.03	2,750.00	0.03
TOTAL GENERAL & ADMIN	1,504,987.66	14.47	1,504,987.66	14.47
OTHER REVENUE AND (EXPENSES)				
AMORTIZATION	(7,391.88)	(0.07)	(7,391.88)	(0.07)
INTEREST YALE FORKLIFT	(3,978.76)	(0.04)	(3,978.76)	(0.04)
INTEREST-MERIDIAN LOC	(20,526.94)	(0.20)	(20,526.94)	(0.20)
INTEREST-MERIDIAN TERM LOAN	(61,509.50)	(0.59)	(61,509.50)	(0.59)
INTEREST OTHER	(1,015.73)	(0.01)	(1,015.73)	(0.01)
INTEREST INCOME	654.94	0.01	654.94	0.01
OTHER INCOME	15.40	0.00	15.40	0.00
TOTAL OTHER REVENUE/(EXP)	(93,752.47)	(0.90)	(93,752.47)	(0.90)
NET INCOME (LOSS)	$ 746,889.28	7.18	$ 746,889.28	7.18

UTCRAS INC
Balance Sheet
December 31, 2012

ASSETS

CURRENT ASSETS				
CASH	$	102,781.82		
ACCOUNTS RECEIVABLE		1,229,023.03		
ALLOWANCE FOR BAD DEBT		(25,000.00)		
DUE FROM (TO) MORTON COMMON		73,994.69		
INVENTORY		2,091,324.78		
PREPAID REAL ESTATE TAXES		22,137.48		
EXCHANGE ACCOUNT		3,361.84		
EMPLOYEE LOAN		4,925.00		
PREPAID EXPENSES/DEPOSIT		87,736.20		
TOTAL CURRENT ASSETS				3,590,284.84
PROPERTY AND EQUIPMENT				
BUILDING IMPROV MORTON		31,410.71		
BUILDING-MACHINE SHOP		39,508.48		
BUILDING - TRUCK SHOP		6,296.62		
PLANT EQUIPMENT		3,053,265.35		
OFFICE FURNITURE & EQUIPMENT		94,335.81		
MEXICAN EQUIP CAPITAL		115,000.00		
TRUCKS AND AUTOS		59,325.82		
TOTAL PROPERTY AND EQUIPMENT		3,399,142.79		
LESS ACCUMULATED DEPRECIATIO		(2,316,832.21)		
NET PROPERTY AND EQUIPMENT				1,082,310.58
OTHER ASSETS				
LOAN COSTS		36,959.08		
ACCUM AMORT BUILD LOAN COST		(15,707.62)		
NET LOAN COSTS		21,251.46		
TOTAL OTHER ASSETS				21,251.46
TOTAL ASSETS			$	4,693,846.88

UTCRAS INC
Balance Sheet
December 31, 2012

LIABILITIES AND STOCKHOLDERS' EQUITY
LIABILITIES

CURRENT LIABILITIES		
ACCOUNTS PAYABLE	$ 506,723.42	
AMERICAN EXPRESS GOLD	16,012.68	
AMERICAN EXPRESS PLUM	8,242.29	
CAPITAL ONE	2,476.57	
CHASE BANK	9,762.55	
CUSTOMER DEPOSIT	42,744.00	
PAYROLL TAXES AND WITHHOLDI	1,745.38	
ACCRUED EXPENSE	254,591.02	
ACCRUED PAYROLL	49,194.31	
ACCRUED PROFESSIONAL FEES	5,000.00	
ACCRUED PROFIT SHARING EXPEN	100,000.00	
ACCRUED INTEREST	1,872.10	
ACCRUED VACATION & HOLIDAY	64,872.16	
TOTAL CURRENT LIABILITIES		1,063,236.48
LONG-TERM LIABILITIES		
MERIDIAN - TERM LOAN	624,033.65	
LEASE PAYABLE-WELLS FARGO CN	386,846.71	
LEASE PAYABLE-WELLS FARGO	8,555.88	
LEASE PAYABLE YALE FORKLIFT	15,293.45	
TOTAL LONG-TERM LIABILITIES		1,034,729.69
TOTAL LIABILITIES		2,097,966.17
STOCKHOLDERS' EQUITY		
ADDT'L PAID IN CAPITAL	1,559,936.68	
Common Stock	1,000.00	
STOCKHOLDERS DISTRIBUTIONS	(115,749.00)	
RETAINED EQUITY	747,981.45	
Net Income	402,711.58	
TOTAL STOCKHOLDERS' EQUITY		2,595,880.71
TOTAL LIABILITIES AND EQUITY		$ 4,693,846.88

UTCRAS INC
Income Statement
For the Twelve Months Ending December 31, 2012

	Current Month		Year to Date	
REVENUES				
SALES	13,766,417.83	98.61	13,766,417.83	98.61
SALES RETURN AND ALLOWANCE	(23,309.82)	(0.17)	(23,309.82)	(0.17)
SCRAP INCOME	215,626.53	1.54	215,626.53	1.54
NET REVENUES	13,958,734.54	99.99	13,958,734.54	99.99
COST OF SALES				
MATERIAL	7,987,361.35	57.21	7,987,361.35	57.21
DIRECT LABOR	1,479,603.67	10.60	1,479,603.67	10.60
LABOR-MAINT DEPT	82,130.42	0.59	82,130.42	0.59
FREIGHT	276,199.18	1.98	276,199.18	1.98
MANUFACTURING OVERHEAD				
CONSULTANT/1099	10,679.75	0.08	10,679.75	0.08
VACATION & HOLIDAY	107,241.68	0.77	107,241.68	0.77
401 K EMPLOYER SHOP	93,430.62	0.67	93,430.62	0.67
401K EMPLOYER-MAINT DEPT	5,389.01	0.04	5,389.01	0.04
SAFETY EXPENSE	61,049.47	0.44	61,049.47	0.44
QA/QC EXPENSE	23,922.98	0.17	23,922.98	0.17
SUPPLIES - WELDING/FABRICATIN	18,054.75	0.13	18,054.75	0.13
SHOP SUPPLIES & EXPENSES	196,221.76	1.41	196,221.76	1.41
SHOP OFFICE SUPPLIES	4,290.48	0.03	4,290.48	0.03
SHOP TOOL EXPENSE	50,211.44	0.36	50,211.44	0.36
LAB TESTING	10,990.50	0.08	10,990.50	0.08
EQUIP RENTAL/LEASE SHOP	15,447.88	0.11	15,447.88	0.11
TRUCK EXPENSE	10,075.76	0.07	10,075.76	0.07
P/R TAX EXP - SHOP	138,140.76	0.99	138,140.76	0.99
PR TAX - MAINT DEPT	7,731.41	0.06	7,731.41	0.06
EMPLOYEE BENEFITS	11,516.49	0.08	11,516.49	0.08
HEALTH INSURANCE SHOP	254,155.71	1.82	254,155.71	1.82
HEALTH INS-MAINT DEPT	20,910.03	0.15	20,910.03	0.15
REPAIRS & MAINT/SHOP	171,277.85	1.23	171,277.85	1.23
REPAIRS/MAINT - TRUCK SHOP	768.60	0.01	768.60	0.01
PROPERTY & LIABILITY-SHOP	122,315.47	0.88	122,315.47	0.88
TRUCK/AUTO INS	5,328.00	0.04	5,328.00	0.04
WORKERS COMP-SHOP	98,032.90	0.70	98,032.90	0.70
EPL INSURANCE & AGENCY FEE	10,260.00	0.07	10,260.00	0.07
DEPRECIATION/SHOP	203,061.96	1.45	203,061.96	1.45
RENT - SHOP	120,000.00	0.86	120,000.00	0.86
WATER AQUA PA	4,425.59	0.03	4,425.59	0.03
PHILA/GAS & ELECTRIC	122,805.56	0.88	122,805.56	0.88
R/E TAXES/ SHOP-UTC	60,475.88	0.43	60,475.88	0.43
TOTAL COST OF SALES	11,783,506.91	84.41	11,783,506.91	84.41
GROSS PROFIT	2,175,227.63	15.58	2,175,227.63	15.58
GENERAL & ADMINISTRATIVE				
SALARIES - OFFICE	581,914.69	4.17	581,914.69	4.17
MARKETING/SALES EXPENSE	214,064.72	1.53	214,064.72	1.53
SALESMAN SALARY	44,000.00	0.32	44,000.00	0.32
P/R TAX EXP OFFICE	37,650.92	0.27	37,650.92	0.27
PR TAX - MARKETING	10,258.88	0.07	10,258.88	0.07
OFFICERS LIFE INSURANCE	63,348.70	0.45	63,348.70	0.45
HEALTH INSURANCE OFFICE	60,568.32	0.43	60,568.32	0.43
REPAIR/MAINT/OFFICE	27,527.98	0.20	27,527.98	0.20
PROPERTY & LIABILITY-OFFICE	4,164.00	0.03	4,164.00	0.03
401 K EMPLOYER OFFICE	55,374.54	0.40	55,374.54	0.40

UTCRAS INC
Income Statement
For the Twelve Months Ending December 31, 2012

		Current Month			Year to Date	
TRAVEL/LODGING		63,741.74	0.46		63,741.74	0.46
GAS/TOLLS/PARKING		12,936.95	0.09		12,936.95	0.09
POSTAGE		4,040.80	0.03		4,040.80	0.03
WORKERS COMP-OFFICE		2,703.34	0.02		2,703.34	0.02
WORKERS COMP - MARKETING		1,611.36	0.01		1,611.36	0.01
AUTO LEASE RENTAL		8,640.00	0.06		8,640.00	0.06
AUTO EXPENSE		45,114.05	0.32		45,114.05	0.32
MEALS & ENTERTAINMENT		67,345.73	0.48		67,345.73	0.48
COMMISSION/CONSULTING FEES		62,724.83	0.45		62,724.83	0.45
PROFESSIONAL FEES		69,054.11	0.49		69,054.11	0.49
ADVERTISING		48,900.43	0.35		48,900.43	0.35
BANK FEES		1,179.00	0.01		1,179.00	0.01
DUES & SUBSCRIPTIONS		23,588.54	0.17		23,588.54	0.17
EDUCATIONAL/TRAINING		1,653.70	0.01		1,653.70	0.01
OFFICE EXPENSE		77,642.31	0.56		77,642.31	0.56
RENT-OFFICE		36,000.00	0.26		36,000.00	0.26
EQUIPMENT RENTAL OFFICE		10,187.52	0.07		10,187.52	0.07
DEPRECIATION/OFFICE		6,154.35	0.04		6,154.35	0.04
TELEPHONE		33,200.28	0.24		33,200.28	0.24
TRASH REMOVAL		12,830.23	0.09		12,830.23	0.09
TAXES OTHER		2,975.76	0.02		2,975.76	0.02
CONTRIBUTIONS		5,925.00	0.04		5,925.00	0.04
TOTAL GENERAL & ADMIN		1,697,022.78	12.16		1,697,022.78	12.16
OTHER REVENUE AND (EXPENSES)						
AMORTIZATION		(7,391.76)	(0.05)		(7,391.76)	(0.05)
INTEREST-WELLS FARGO-CNC		(18,727.43)	(0.13)		(18,727.43)	(0.13)
INTEREST YALE FORKLIFT		(1,293.39)	(0.01)		(1,293.39)	(0.01)
INTEREST-MERIDIAN LOC		(131.94)	0.00		(131.94)	0.00
INTEREST-MERIDIAN TERM LOAN		(49,319.25)	(0.35)		(49,319.25)	(0.35)
INTEREST OTHER		(242.59)	0.00		(242.59)	0.00
INTEREST INCOME		1,613.09	0.01		1,613.09	0.01
TOTAL OTHER REVENUE/(EXP)		(75,493.27)	(0.54)		(75,493.27)	(0.54)
NET INCOME (LOSS)	$	402,711.58	2.88	$	402,711.58	2.88

UTCRAS
RAIL SYSTEMS GROUP
AAR Certified
WHEEL/AXLE ASSEMBLIES, ROLLER BEARING, GEARBOX TRANSMISSION & TRUCK ASSEMBLY DIVISIONS

Code of Ethics and Business Conduct

Values - Vision – Strengths

ONE CODE

Our Code of Ethics and Business Conduct is intended to promote lawful and ethical behavior by all members of the board of directors and all dominion and non dominion employees.

UTCRAS' Code of Ethics and Business Conducts purpose is to ensure that the company and those acting on its behalf conducts business according to our core values and all applicable company policies and legal requirements. This Code covers a broad range of issues, including such things as workplace safety, conflicts of interest, integrity, fairness, use of company assets, protection of employee and customer information, manufacturing and quality standards.

Definitions:

- Core Values –Respect, Integrity, Performance Excellence, Accountability.
- Applicable Company Policies – General Work Rules, Safety Work Rules & Safety Programs, Drug/Alcohol Free Workplace, Job Specific Work Rules, Business Conduct, Financial and Medical Records, Confidentiality, UTCRAS and Other Company' property, Manufacturing Procedures, Quality Procedures.
- Legal Requirements – Follow all County, State and Federal Laws. Follow all Legal Bonding Documents.

501 Highland Ave. • P. O. Box 319 • Morton, Pennsylvania 19070
• 610-328-1100 • 800-421-3404 • Facsimile 610-544-6979

SECTION B
PART B TECHNICAL PROPOSAL AND STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

NOTE: The Authority reserves the right to audit compliance with respect to each of the required statements and certifications in the forms submitted by Offerors, including but not limited to the Domestic U.S. Content Certification, Domestic U.S. Content Worksheet, and Final Assembly of Production (Non-Pilot) Vehicles in Massachusetts.

Questions Concerning Eligibility

Provide short answers (and attach relevant documents) to the following questions and requests:

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts. Please see Appendix 1 on next page.

2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.
Publicly Traded, WAB NYSE.

3. Provide the names, title and telephone numbers of all officers.
Please see attached Appendix II.

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.
Vapor Stone Rail Systems Aftermarket

5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause. No

6. Have any of the business owners, shareholders, or officers every been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances. No

7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances. No

8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents. Please see Westinghouse Air Brake Technologies filings with the SEC for all corporate related information including legal and financials.

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.
Please see attached Appendix III.

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law? No

Vapor Stone Rail Systems,
a division of Westinghouse Air Brake Technologies Corporation, d/b/a Wabtec Corp.

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity. Please see Westinghouse Air Brake Technologies filings with the SEC for all Financial information.
12. Provide the business's current code of business ethics or equivalent.

    Please see attached Appendix IV.

Appendix I

Vapor Stone Rail Systems Response to Question #1:

In the event Westinghouse Air Brake Technologies Corporation ("Wabtec") is awarded a Contract as a result of this proposal, Wabtec will immediately register to do business in Massachusetts as a foreign corporation.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

Officer	Title	Telephone Number
Albert J. Neupaver	Chief Operating Officer	1+412/825-1000
Raymond T. Betler	President & Chief Operating Officer	1+412/825-1000
Alvaro Garcia-Tunon	Executive Vice President & Chief Financial Officer	1+412/825-1000
David J. Meyer	Vice President – Group Executive - Transit	1+412/825-1000
Robert Dezzi	Vice President/General Manager – Transit	1+864/433-6475
Patrick D. Dugan	Senior Vice President – Finance	1+412/825-1000
Scott Wahlstrom	Senior Vice President – Human Resourses	1+412/825-1000

Vapor Stone
RAIL SYSTEMS
A Wabtec company

CREDIT REFERENCE

Business address:	Shipping address:	Phone (518) 561-0044
72, Arizona Avenue	72, Arizona Avenue	Fax (518) 561-1081
Plattsburgh, NY 12903	Plattsburgh, NY 12903	

BANK INFORMATION

JPM Credit Inquiry/ Audit Team
817-345-3795

Account #: 6301489807509

MAJOR SUPPLIERS- Name, address and phone number.

Supplier 1	Supplier 2	Supplier 3
Allen Machine	Cygnus Inc.	BW Elliot
120. Ricefield LN.	510 east, 41st street	11, Beckwith Ave.
Hauppage, NY	Paterson, NJ	Binghamton, NY
11788	07504	13902
(631) 630-8800	(973) 523-0668	(607) 348-1389

GENERAL INFORMATION

Parent company:	Westinghouse Air Brake Technology Corporation doing business as 'Wabtec Corp.'
Business name:	Vapor Stone Rail Systems, division of Wabtec
Nature of business:	Manufacturing
Tax ID number:	251615902

Bernard Filion, CGA
Controller

WABTEC CODE OF BUSINESS CONDUCT and ETHICS

Westinghouse Air Brake Technologies Corporation ("Wabtec" or "Company") was originally formed as Westinghouse Air Brake in 1869 by George Westinghouse and over the years has grown through mergers and acquisitions to become an international corporation with operations, customers, and suppliers around the world. As a global provider of value-added, technology-based products and services for the rail industry we are proud of our commitment to ethical, respectful and lawful business and working relationships. To ensure we maintain the highest level of ethical and legal standards management has established this Code of Business Conduct and Ethics and other specific Company policies and internal controls to provide you with guidance regarding your job responsibilities. As an integral member of Wabtec, everyone is expected to observe the highest standards of professionalism and to adhere to Company policies / procedures, internal controls and applicable laws at all times.

APPLICABILITY

This Code of Business Conduct and Ethics Policy ("Policy") applies to all Wabtec directors, officers and employees, including individuals employed at domestic and foreign subsidiaries and joint ventures controlled by the Company; and where necessary and appropriate, to any outside party who acts on behalf of the Company.

As part of a global company, you must comply with all laws, regulations and Company policies that govern your work. Laws and regulations may differ, depending on the country or state in which Wabtec operates. Because Wabtec is a company based in the United States, some United States laws apply to subsidiaries and joint ventures located in foreign jurisdictions. However, Company policies and the standards of professionalism and ethics apply to everyone. No excuse or pressure justifies breaking the law or these standards. Do not use a consultant, representative or contractor to break the law or circumvent Company policies. In some countries, certain conduct is banned, but the ban is currently not enforced. This does not excuse any illegal or unethical action.

Wabtec has specific policies and procedures on a broad range of business issues, and, while this Policy may provide summary guidance for particular subjects, this does not alleviate your responsibility to review and adhere to other specific policies. This Policy is designed to assist you with making the best ethical decision regarding possible "gray areas" that may not be expressly addressed by a particular policy or procedure. This Policy is also designed to answer questions that you may have regarding interactions with each other, our customers, our suppliers and our communities. Abiding by this Policy and other Wabtec policies and avoiding even the appearance of impropriety is essential to Wabtec's mission of maintaining the highest standards of business ethics.

ETHICS COMPLIANCE OFFICER

The Company has appointed **Scott E. Wahlstrom** as the **Ethics Compliance Officer** to administer this Policy. The Company has developed a comprehensive program for implementing this Policy through appropriate guidance, training, certifications, oversight monitoring and investigations. The Ethics Compliance Officer is responsible for: (1) giving advice on the interpretation and application of this Policy; (2) supporting training and education; (3) monitoring compliance with the Policy; (4) responding to inquiries and investigating reported concerns; and (5) providing periodic reporting to the Company's Board of Directors.

Contact Information for the Ethics Compliance Officer
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Also see below the "Reporting of a Violation of this Policy or a Violation of any Law, Rule or Regulation" section of this Policy for procedures to immediately report a concern to Wabtec's Hotline

CONFLICTS OF INTEREST

A conflict of interest exists when your personal interests or activities, or those of a family member, influence or interfere with the obligation to perform your job in the best interest of Wabtec. If you or someone closely associated with you may gain personally from Wabtec activity, then you should consider whether there is a conflict. Therefore you should avoid situations that might interfere, or appear to interfere, with your obligations to Wabtec. It is impractical to describe all of these situations in which conflicts may arise, but examples include: business or investment interests, outside employment or gifts from customers, suppliers or vendors. It is your responsibility to promptly disclose any situation that may be, or even appear to be, a conflict of interest.

CORPORATE OPPORTUNITIES

You are prohibited from taking personal advantage of opportunities that arise from the use of corporate property, information or position or from using any of these for personal gain. You have a duty to advance the legitimate business interests of Wabtec whenever possible.

FINANCIAL INTEREST AND OUTSIDE ACTIVITIES

You may invest in publicly traded securities of firms with which Wabtec conducts business, so long as you have no material inside information and the investment is not large enough to affect any business activities or raise an appearance of impropriety. You or your family may not have a financial interest in a non-publicly traded corporation, partnership, or other firm with which Wabtec conducts or is likely to conduct business unless you have obtained the written approval of the Ethics Compliance Officer. Depending on the specific circumstances, it may be appropriate for you to sell or otherwise give up your interest. If you are unsure about the situation, contact the Ethics Compliance Officer.

You are prohibited from competing with Wabtec and may accept remuneration from others only if they are not an actual or potential competitor of Wabtec, do not have an actual or significant business relationship with Wabtec, and if your activities do not interfere with or adversely influence your performance at Wabtec. Similarly, you must end your activities if and when, in the future, these activities constitute competition to Wabtec or become related to the operations of Wabtec. Further, outside activities may not be conducted from Wabtec facilities or involve the use of Wabtec time, equipment, supplies or other resources.

INSIDER TRADING

Both ethical standards and United States securities law and laws of several countries prohibit you from using material, non-public information when trading or recommending the trading of securities of Wabtec or its customers, suppliers or other corporations with which Wabtec has contractual relationships or may be negotiating transactions. Such material insider information includes any knowledge you may have about dividend changes, earnings estimates, significant changes in operations, upcoming mergers or acquisitions, major litigation, new discoveries, products, and services, and any other information which could influence a person to sell, buy or otherwise trade in a company's securities. If you have material insider information, you must not buy, sell, or recommend a transaction involving a company's securities until after the company has made the information public. Violating this law can lead to significant civil and criminal penalties in the United States and elsewhere, where similar laws have been adopted.

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Wabtec's future depends on its ability to attract and retain the best people at all levels of the Company. To do so, Wabtec must establish and foster an environment that embraces individual differences and encourages everyone to attain their full potential. Wabtec policies and practices strive to assure equal employment and advancement opportunities for all qualified people. Wabtec will maintain appropriate standards of conduct in the workplace and will always be sensitive to the concerns of everyone associated with the Company. Harassment for any reason is inconsistent with Wabtec's Code of Business Conduct and Ethics and will not be tolerated.

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Wabtec is committed to protect its assets, including its intellectual property, resources, confidential information and good name. All Wabtec assets should be used for legitimate business purposes only. Theft, carelessness, unauthorized disclosure and misuses all have a direct impact of Wabtec's effectiveness and profitability and will not be tolerated.

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You may have access to information that is confidential or proprietary to Wabtec, including intellectual property, trade secrets, customer lists, pricing, financial information, strategic plans and product development. Confidential information should only be disclosed internally and on a "need to know" basis. You should not use confidential information for your own benefit or for the benefit of others, either during or after your employment. Outside Wabtec, you may reveal confidential information and other intellectual property only for valid, approved business purposes, or when required to do so by law, subpoena, or other legal or administrative process that compels disclosure. Even then you may only do so with proper legal protection to maintain the confidentiality and protection of the information. In these cases, you must obtain prior written approval of Wabtec's Legal Department.

In addition, it is important for you to prevent misuse, disclosure, or destruction (other than in accordance with the appropriate record retention policy) of the information entrusted to you by the Company or its customers, or for which you are otherwise responsible. This information may be in printed, electronic or other format. In handling the Company's information or information owned by a third party and/or licensed by the Company, you should comply with copyright laws, computer software licensing agreements and relevant Company policy. Wabtec's Legal Department and Corporate Information Technology Department can provide advice and assistance in protecting this information in accordance with our policies and procedures.

RELATIONSHIPS WITH SUPPLIERS AND VENDORS

You have an affirmative duty to conduct business fairly and lawfully within Wabtec and with our suppliers and vendors. You are required to give all suppliers and vendors fair and uniform consideration by making decisions based on objective criteria, such as competitive pricing, delivery, quality, reliability and service.

You may not accept gifts, loans, or any other favors from anyone who is, or wishes to conduct business with Wabtec. The only exceptions are inexpensive gifts having a nominal value of about $100 USD (see below in the Gifts and Hospitality Section). You may accept occasional business meals and entertainment, provided they are not lavish, excessive, or of a nature which might create the appearance of impropriety or influence the business decision of the recipient.

If you wish to conduct business on behalf of Wabtec with an immediate family member, another relative or with a business where you or a relative is an officer, director, or principal, you must first disclose the relationship and obtain prior written approval of the Ethics Compliance Officer.

ANTITRUST / COMPETITION LAWS

Wabtec is committed to fair and open competition in the markets it serves around the world and competes independently in the marketplace in compliance with the laws of the United States and other countries. You cannot engage in any understandings or agreements with competitors to restrain trade and must avoid the appearance of such conduct. Examples of antitrust violations are: (1) price fixing; (2) bid rigging; (3) collusion to allocate markets, customers or production; and (4) group boycotts. You must be particularly aware of these prohibitions and should exercise due care in situations where competitors may be present to avoid violating these laws.

SANCTIONS AND TRADE EMBARGOES

The United States government uses economic sanctions and trade embargoes to further foreign policy and national security objectives. You must abide by all sanctions and embargoes that may be in effect. Also, you cannot comply with a boycott imposed by a foreign country against a country friendly to the United States. Consult Wabtec's Legal Department if you have a question as to whether a particular transaction is subject to a sanction or embargo or if you are asked to comply with a foreign boycott.

IMPROPER PAYMENTS

You may not offer or accept anything of value to improperly influence any person in a business relationship with Wabtec. Such improper payments include, but are not limited to, bribes, kickbacks, or loans to or from any person with whom you conduct business on behalf of Wabtec. Likewise, neither you nor any immediate family member should offer, or accept cash, gifts, or favors from vendors, lessors, customers or competitors.

This prohibition on improper payments extends to government officials, commercial entities and, as such, it generally is expressly prohibited to give or offer to give, either directly or through an agent or intermediary, anything of value in order to obtain, retain, or maintain business. For further clarification on this prohibition the Company has enacted the Anti-Bribery / Anti-Corruption Policy.

GIFTS AND HOSPITALITY

This Policy allows for the provision of business-related meals and events, ordinary business courtesies, and nominal gifts when generally considered to be accepted industry practice. However, any gift or hospitality must: (1) be modest in value (with consideration of the nature, country, location of the gift and/or where it is given or received, and typically should not exceed $100 USD in value); (2) never be in cash or similar form; (3) be in good taste and appropriate for the occasion; (4) be promotional in nature and imprinted with a company logo (if applicable); (5) be given or accepted in good faith without improperly influencing (or appearing to influence) or rewarding the recipient; and (6) be allowable under local law.

There are additional rules pertaining to the giving/receiving of a gift or the offering/accepting of hospitality which are further explained in the Anti-Bribery / Anti-Corruption Policy.

POLITICAL AND CHARITABLE CONTRIBUTIONS

Wabtec supports your rights to participate in the political process. However, such activities must be carried out on your own time and at your own expense. The laws of the United States and other jurisdictions prohibit or restrict the ability of Wabtec to provide corporate funds in support of political campaigns. Therefore, corporate funds are not to be utilized to support political campaigns.

Likewise, Wabtec supports everyone's desire to contribute to charitable organizations utilizing their own time and resources. Wabtec resources may be contributed to a particular charitable organization with the prior written authorization of the Ethics Compliance Officer for any contribution exceeding $2000 USD. Charitable contributions of less than $2000 USD may be authorized at the local business unit level in conformance with Wabtec's Delegation of Authority.

There are additional rules pertaining to contributions to charitable organizations when government officials or commercial entities may be involved. These rules are further explained in the Anti-Bribery / Anti-Corruption Policy.

BOOKS AND RECORDS / INTERNAL CONTROLS / RECORD-KEEPING

All Wabtec books, records, accounts and financial statements must be maintained in reasonable detail to clearly and accurately represent the facts of the underlying matter in all material respects. Transactions must be recorded accurately and fairly to reflect the activities of Wabtec and comply with Wabtec's internal control procedures and applicable legal and accounting standards. Specifically, Wabtec records must properly account for all assets and liabilities, properly document all business expenditures including travel, and accurately reflect the business of Wabtec. You must not prepare, accept, approve or transmit records that intentionally or otherwise falsify or misrepresent the true nature of the transactions.

Wabtec has established accounting and other internal control standards and procedures to ensure that all Wabtec assets are protected and properly used and that financial records are accurate and reliable. Everyone shares the responsibility for maintaining and complying with required internal controls and ensuring that Wabtec assets are not misused.

Wabtec's record-retention policies are established in compliance with United States regulations and laws. Where local requirements and laws differ from those of the United States, records must be retained for the longer of Company policy or local requirements.

PROCEDURES FOR THE RECEIPT, RETENTION AND TREATMENT OF COMPLAINTS

The Audit Committee of Wabtec has established procedures for the receipt, retention and treatment of complaints received regarding improprieties relating to accounting, internal accounting controls or auditing matters and confidential, anonymous submission of complaints by employees of concerns regarding questionable accounting or auditing matters. Complaints regarding such matters should be sent to the **Ethics Compliance Officer** or by contacting Wabtec's **Ethics and Compliance Hotline** as described more fully below in the section entitled **"Reporting of a Violation of This Policy or a Violation of Any Law, Rule or Regulation".**

RESPONSIBILITIES

In addition to complying with this Policy, you should also familiarize yourself with Wabtec's Policy/Procedure Manual and report any suspected policy violations. There will be no retaliation for good-faith reports of suspected Policy violations and all reports will be addressed as confidentially as possible.

While this Policy applies to everyone, managerial and supervisory employees have a special duty to lead by example, to ensure that those whom they supervise are complying with the Policy and to respond promptly, appropriately and effectively to all alleged violations of the Policy.

CONSEQUENCES OF POLICY VIOLATIONS

Violations of this Policy, unethical conduct and illegal acts are all forbidden and may result in discipline, including termination of employment, or criminal and/or civil prosecution.

REPORTING OF A VIOLATION OF THIS POLICY OR A VIOLATION OF ANY LAW, RULE OR REGULATION
The Company has appointed the **Ethics Compliance Officer** to ensure compliance and investigate suspected Policy violations. Everyone is encouraged to raise questions or report any suspected violations without fear of retaliatory action. Each question or suspected violation will be treated with confidentiality and the highest degree of respect, and the individual may remain anonymous if they desire. If you have questions regarding this Policy or appropriate action in a particular circumstance, immediately contact the **Ethics Compliance Officer, Scott E. Wahlstrom at (412) 825-1418 or swahlstrom@wabtec.com** .

If you do not feel comfortable contacting management directly you may also raise concerns or report suspected Policy violations by contacting Wabtec's confidential **Ethics and Compliance Hotline** utilizing one of the following options:

- **Toll-Free Hotline (U.S. /Canada – English Speaking):** **877-860-1054**
- **Toll-Free Hotline (U.S. /Canada – Non English Speaking):** **888-273-6085**
- **Toll-Free Hotline (Outside the U.S. and Canada):** **See Attachment "A"**
- **Secure web reporting at:** **www.tnwinc.com/wabtec**
- **E-mail at:** **reportline@tnwinc.com**
- **Fax at:** **770-409-5008**
- **Postal Service:** **The Network**
  Attn: Wabtec
  333 Research Court
  Norcross, GA 30092

(Note: Wabtec's Hotline services are operated by an independent company called The Network. The Network offers multi-lingual services which are available 24 hours a day, 7 days a week).

All concerns will be relayed to Wabtec Corporation for review. Upon receiving a report of a concern or suspected Policy violation, the Ethics Compliance Officer will immediately document and investigate that report. If a violation is detected, the Company will take prompt measures to mitigate the violation, including disciplinary action as defined herein.

Remember:
When in doubt, ask before acting.

APPENDIX: A

Outside the U.S. and Canada Hotline Phone Numbers

Dialing Information and Instructions:

- Availability of calling options varies by country due to local restrictions. This may require using a different access code or type of phone. If phone service is not available then please contract Wabtec utilizing one of the other available reporting options.
- In countries where the Type of International Service is AT&T Direct, first dial the local Access Code then wait for a tone then dial the Toll-Free Number.

Country	Type of International Service	Access Code (For AT&T Direct Only)	Toll-Free Number
Brazil	AT&T Direct	**0-800-890-0288**	877-860-1054
Brazil	AT&T Direct	**0-800-888-8288**	877-860-1054
France - Telecom	AT&T Direct	**0-800-99-0011**	877-860-1054
France - Telecom Development	AT&T Direct	**0805-701-288**	877-860-1054
Germany	AT&T Direct	**0-800-225-5288**	877-860-1054
Italy	AT&T Direct	**800-172-444**	877-860-1054
Japan - KDDI	AT&T Direct	**00-539-111**	877-860-1054
Japan - Softbank Telecom	AT&T Direct	**00-665-5111**	877-860-1054
Japan - Softbank Telecom	AT&T Direct	**00-441-1111**	877-860-1054
Macedonia	AT&T Direct	**0-8000-4288**	877-860-1054
Mexico (English Speaking Operator) - Mexico New	AT&T Direct	**01-800 288-2872**	877-860-1054
Mexico (Spanish Speaking Operator) - Por Cobrar	AT&T Direct	**01-800-112-2020**	877-860-1054
Mexico (English Speaking Operator)	AT&T Direct	**001-800-462-4240**	877-860-1054
Mexico (Spanish Speaking Operator)	AT&T Direct	**001-800-658-5454**	877-860-1054
South Africa	AT&T Direct	**0-800-99-0123**	877-860-1054
United Kingdom - British Telecom	AT&T Direct	**0-800-89-0011**	877-860-1054
United Kingdom - C&W	AT&T Direct	**0-500-89-0011**	877-860-1054
United Kingdom - NTL	AT&T Direct	**0-800-013-0011**	877-860-1054

Country	Type of International Service	Toll-free Number (In country toll free format)
Australia	ITFS	**1-800-09-4144**
India	ITFS	**000-800-100-1303**
Malaysia	ITFS	**1-800-81-4639**
China North - China Netcom Group	ITFS	**10-800-711-0927**
China South - China Telecom South	ITFS	**10-800-110-0854**

Appendix H

SECTION B PART B TECHNICAL PROPOSAL AND STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

IMPORTANT:

To be answered by Suppliers providing the following systems only:

¤ Propulsion,
¤ Trucks and Major Truck Components,
¤ Auxiliary Power,
¤ Low Voltage DC Power,
¤ HVAC,
¤ Carbody,
¤ Couplers / Draft Gear,
¤ Wheel Sets,
¤ Air Brake Equipment and Controls,
¤ Cab Signal Equipment,
¤ Door Systems,
¤ Seats,
¤ Vehicle Monitoring System,
¤ Network Equipment and Integrator,
¤ Communications Equipment including LED and LCD Signage,
¤ Lighting

Thank you

Supplier Name:	Wabtec Passenger Transit
Supplier Representative:	Cornelius R. Stevenson
System:	Air Brakes System and Controls, Couplers and Draft Bar, Third Rail Current Collector
Date:	1-10-2014

SECTION B
PART B TECHNICAL PROPOSAL AND STATEMENTS AND CERTIFICATIONS REGARDING ELIGIBILITY

QUALIFICATIONS AND CERTIFICATIONS

NOTE: The Authority reserves the right to audit compliance with respect to each of the required statements and certifications in the forms submitted by Offerors, including but not limited to the Domestic U.S. Content Certification, Domestic U.S. Content Worksheet, and Final Assembly of Production (Non-Pilot) Vehicles in Massachusetts.

Questions Concerning Eligibility

Provide short answers (and attach relevant documents) to the following questions and requests:

1. Attach relevant Certificate of Good Standing from the Secretary of State of the Commonwealth of Massachusetts.

   In the event Westinghouse Air Brake Technologies Corporation ("Wabtec") is awarded a Contract as a result of this proposal, Wabtec will immediately register to do business in Massachusetts as a foreign corporation

2. Provide the names and telephone numbers of all business owners, shareholders if not a publicly held corporation, and/or members if a limited liability company.

   Publicly Traded, WAB NYSE

3. Provide the names, title and telephone numbers of all officers.

   Please see Attached Appendix II

4. Has the business or an owner or shareholder of the business ever had a prior contractual relationship with the MBTA? If yes, please describe relationship.

   MotivePower Division of Wabtec- Wabtec Pasenger Transit sister division

5. Has the business or an owner or shareholder of the business ever been in default of any obligations under a contract with the MBTA, any other Massachusetts state agency or any federal agency? If yes, please describe the circumstances. Please indicate whether it resulted in a termination for cause.

   No

6. Have any of the business owners, shareholders, or officers every been convicted of felony violations of Federal, state or local laws? If yes, please describe the circumstances.

   No

7. Are there any pending recent law suits against the business or any of its owners or shareholders? If yes, please describe the circumstances.

   No

8. Provide the name, address, account number, contact person and telephone number of the insurance agent responsible for procuring insurance required by the Solicitation Documents.

   Please see Westinghouse Air Brake Technologies filings with the SEC for all corporate related information including legal and Financial

9. Provide the name, address, contact person and telephone of three business credit references, including but not limited to your primary banking institution.

   Please see Attached Appendix III

10. Has the business or any of the business's owners or shareholders ever filed for bankruptcy or invoked insolvency proceedings under state law?

    No

11. Provide the last three (3) years of audited financial statements, or reasonable equivalent of the Offeror. If the Offeror is a joint venture or other combination of business entities, provide the last three (3) years audited financial statements for each entity.

Please see Westinghouse Air Brake Technologies filings with the SEC for all Financial information

12. Provide the business's current code of business ethics or equivalent.

Please see Attached Appendix I

WABTEC CODE OF BUSINESS CONDUCT and ETHICS

Westinghouse Air Brake Technologies Corporation ("Wabtec" or "Company") was originally formed as Westinghouse Air Brake in 1869 by George Westinghouse and over the years has grown through mergers and acquisitions to become an international corporation with operations, customers, and suppliers around the world. As a global provider of value-added, technology-based products and services for the rail industry we are proud of our commitment to ethical, respectful and lawful business and working relationships. To ensure we maintain the highest level of ethical and legal standards management has established this Code of Business Conduct and Ethics and other specific Company policies and internal controls to provide you with guidance regarding your job responsibilities. As an integral member of Wabtec, everyone is expected to observe the highest standards of professionalism and to adhere to Company policies / procedures, internal controls and applicable laws at all times.

APPLICABILITY

This Code of Business Conduct and Ethics Policy ("Policy") applies to all Wabtec directors, officers and employees, including individuals employed at domestic and foreign subsidiaries and joint ventures controlled by the Company; and where necessary and appropriate, to any outside party who acts on behalf of the Company.

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In addition, it is important for you to prevent misuse, disclosure, or destruction (other than in accordance with the appropriate record retention policy) of the information entrusted to you by the Company or its customers, or for which you are otherwise responsible. This information may be in printed, electronic or other format. In handling the Company's information or information owned by a third party and/or licensed by the Company, you should comply with copyright laws, computer software licensing agreements and relevant Company policy. Wabtec's Legal Department and Corporate Information Technology Department can provide advice and assistance in protecting this information in accordance with our policies and procedures.

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You may not accept gifts, loans, or any other favors from anyone who is, or wishes to conduct business with Wabtec. The only exceptions are inexpensive gifts having a nominal value of about $100 USD (see below in the Gifts and Hospitality Section). You may accept occasional business meals and entertainment, provided they are not lavish, excessive, or of a nature which might create the appearance of impropriety or influence the business decision of the recipient.

If you wish to conduct business on behalf of Wabtec with an immediate family member, another relative or with a business where you or a relative is an officer, director, or principal, you must first disclose the relationship and obtain prior written approval of the Ethics Compliance Officer.

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The United States government uses economic sanctions and trade embargoes to further foreign policy and national security objectives. You must abide by all sanctions and embargoes that may be in effect. Also, you cannot comply with a boycott imposed by a foreign country against a country friendly to the United States. Consult Wabtec's Legal Department if you have a question as to whether a particular transaction is subject to a sanction or embargo or if you are asked to comply with a foreign boycott.

IMPROPER PAYMENTS

You may not offer or accept anything of value to improperly influence any person in a business relationship with Wabtec. Such improper payments include, but are not limited to, bribes, kickbacks, or loans to or from any person with whom you conduct business on behalf of Wabtec. Likewise, neither you nor any immediate family member should offer, or accept cash, gifts, or favors from vendors, lessors, customers or competitors.

This prohibition on improper payments extends to government officials, commercial entities and, as such, it generally is expressly prohibited to give or offer to give, either directly or through an agent or intermediary, anything of value in order to obtain, retain, or maintain business. For further clarification on this prohibition the Company has enacted the Anti-Bribery / Anti-Corruption Policy.

GIFTS AND HOSPITALITY

This Policy allows for the provision of business-related meals and events, ordinary business courtesies, and nominal gifts when generally considered to be accepted industry practice. However, any gift or hospitality must: (1) be modest in value (with consideration of the nature, country, location of the gift and/or where it is given or received, and typically should not exceed $100 USD in value); (2) never be in cash or similar form; (3) be in good taste and appropriate for the occasion; (4) be promotional in nature and imprinted with a company logo (if applicable); (5) be given or accepted in good faith without improperly influencing (or appearing to influence) or rewarding the recipient; and (6) be allowable under local law.

There are additional rules pertaining to the giving/receiving of a gift or the offering/accepting of hospitality which are further explained in the Anti-Bribery / Anti-Corruption Policy.

POLITICAL AND CHARITABLE CONTRIBUTIONS

Wabtec supports your rights to participate in the political process. However, such activities must be carried out on your own time and at your own expense. The laws of the United States and other jurisdictions prohibit or restrict the ability of Wabtec to provide corporate funds in support of political campaigns. Therefore, corporate funds are not to be utilized to support political campaigns.

Likewise, Wabtec supports everyone's desire to contribute to charitable organizations utilizing their own time and resources. Wabtec resources may be contributed to a particular charitable organization with the prior written authorization of the Ethics Compliance Officer for any contribution exceeding $2000 USD. Charitable contributions of less than $2000 USD may be authorized at the local business unit level in conformance with Wabtec's Delegation of Authority.

There are additional rules pertaining to contributions to charitable organizations when government officials or commercial entities may be involved. These rules are further explained in the Anti-Bribery / Anti-Corruption Policy.

BOOKS AND RECORDS / INTERNAL CONTROLS / RECORD-KEEPING

All Wabtec books, records, accounts and financial statements must be maintained in reasonable detail to clearly and accurately represent the facts of the underlying matter in all material respects. Transactions must be recorded accurately and fairly to reflect the activities of Wabtec and comply with Wabtec's internal control procedures and applicable legal and accounting standards. Specifically, Wabtec records must properly account for all assets and liabilities, properly document all business expenditures including travel, and accurately reflect the business of Wabtec. You must not prepare, accept, approve or transmit records that intentionally or otherwise falsify or misrepresent the true nature of the transactions.

Wabtec has established accounting and other internal control standards and procedures to ensure that all Wabtec assets are protected and properly used and that financial records are accurate and reliable. Everyone shares the responsibility for maintaining and complying with required internal controls and ensuring that Wabtec assets are not misused.

Wabtec's record-retention policies are established in compliance with United States regulations and laws. Where local requirements and laws differ from those of the United States, records must be retained for the longer of Company policy or local requirements.

PROCEDURES FOR THE RECEIPT, RETENTION AND TREATMENT OF COMPLAINTS

The Audit Committee of Wabtec has established procedures for the receipt, retention and treatment of complaints received regarding improprieties relating to accounting, internal accounting controls or auditing matters and confidential, anonymous submission of complaints by employees of concerns regarding questionable accounting or auditing matters. Complaints regarding such matters should be sent to the **Ethics Compliance Officer** or by contacting Wabtec's **Ethics and Compliance Hotline** as described more fully below in the section entitled **"Reporting of a Violation of This Policy or a Violation of Any Law, Rule or Regulation".**

RESPONSIBILITIES

In addition to complying with this Policy, you should also familiarize yourself with Wabtec's Policy/Procedure Manual and report any suspected policy violations. There will be no retaliation for good-faith reports of suspected Policy violations and all reports will be addressed as confidentially as possible.

While this Policy applies to everyone, managerial and supervisory employees have a special duty to lead by example, to ensure that those whom they supervise are complying with the Policy and to respond promptly, appropriately and effectively to all alleged violations of the Policy.

WABTEC CODE OF BUSINESS CONDUCT and ETHICS

Westinghouse Air Brake Technologies Corporation ("Wabtec" or "Company") was originally formed as Westinghouse Air Brake in 1869 by George Westinghouse and over the years has grown through mergers and acquisitions to become an international corporation with operations, customers, and suppliers around the world. As a global provider of value-added, technology-based products and services for the rail industry we are proud of our commitment to ethical, respectful and lawful business and working relationships. To ensure we maintain the highest level of ethical and legal standards management has established this Code of Business Conduct and Ethics and other specific Company policies and internal controls to provide you with guidance regarding your job responsibilities. As an integral member of Wabtec, everyone is expected to observe the highest standards of professionalism and to adhere to Company policies / procedures, internal controls and applicable laws at all times.

APPLICABILITY

This Code of Business Conduct and Ethics Policy ("Policy") applies to all Wabtec directors, officers and employees, including individuals employed at domestic and foreign subsidiaries and joint ventures controlled by the Company; and where necessary and appropriate, to any outside party who acts on behalf of the Company.

As part of a global company, you must comply with all laws, regulations and Company policies that govern your work. Laws and regulations may differ, depending on the country or state in which Wabtec operates. Because Wabtec is a company based in the United States, some United States laws apply to subsidiaries and joint ventures located in foreign jurisdictions. However, Company policies and the standards of professionalism and ethics apply to everyone. No excuse or pressure justifies breaking the law or these standards. Do not use a consultant, representative or contractor to break the law or circumvent Company policies. In some countries, certain conduct is banned, but the ban is currently not enforced. This does not excuse any illegal or unethical action.

Wabtec has specific policies and procedures on a broad range of business issues, and, while this Policy may provide summary guidance for particular subjects, this does not alleviate your responsibility to review and adhere to other specific policies. This Policy is designed to assist you with making the best ethical decision regarding possible "gray areas" that may not be expressly addressed by a particular policy or procedure. This Policy is also designed to answer questions that you may have regarding interactions with each other, our customers, our suppliers and our communities. Abiding by this Policy and other Wabtec policies and avoiding even the appearance of impropriety is essential to Wabtec's mission of maintaining the highest standards of business ethics.

ETHICS COMPLIANCE OFFICER

The Company has appointed **Scott E. Wahlstrom** as the **Ethics Compliance Officer** to administer this Policy. The Company has developed a comprehensive program for implementing this Policy through appropriate guidance, training, certifications, oversight monitoring and investigations. The Ethics Compliance Officer is responsible for: (1) giving advice on the interpretation and application of this Policy; (2) supporting training and education; (3) monitoring compliance with the Policy; (4) responding to inquiries and investigating reported concerns; and (5) providing periodic reporting to the Company's Board of Directors.

Contact Information for the Ethics Compliance Officer
Scott E. Wahlstrom
(412) 825-1418 or swahlstrom@wabtec.com
Also see below the "Reporting of a Violation of this Policy or a Violation of any Law, Rule or Regulation" section of this Policy for procedures to immediately report a concern to Wabtec's Hotline

CONFLICTS OF INTEREST

A conflict of interest exists when your personal interests or activities, or those of a family member, influence or interfere with the obligation to perform your job in the best interest of Wabtec. If you or someone closely associated with you may gain personally from Wabtec activity, then you should consider whether there is a conflict. Therefore you should avoid situations that might interfere, or appear to interfere, with your obligations to Wabtec. It is impractical to describe all of these situations in which conflicts may arise, but examples include: business or investment interests, outside employment or gifts from customers, suppliers or vendors. It is your responsibility to promptly disclose any situation that may be, or even appear to be, a conflict of interest.

CORPORATE OPPORTUNITIES

You are prohibited from taking personal advantage of opportunities that arise from the use of corporate property, information or position or from using any of these for personal gain. You have a duty to advance the legitimate business interests of Wabtec whenever possible.

FINANCIAL INTEREST AND OUTSIDE ACTIVITIES

You may invest in publicly traded securities of firms with which Wabtec conducts business, so long as you have no material inside information and the investment is not large enough to affect any business activities or raise an appearance of impropriety. You or your family may not have a financial interest in a non-publicly traded corporation, partnership, or other firm with which Wabtec conducts or is likely to conduct business unless you have obtained the written approval of the Ethics Compliance Officer. Depending on the specific circumstances, it may be appropriate for you to sell or otherwise give up your interest. If you are unsure about the situation, contact the Ethics Compliance Officer.

You are prohibited from competing with Wabtec and may accept remuneration from others only if they are not an actual or potential competitor of Wabtec, do not have an actual or significant business relationship with Wabtec, and if your activities do not interfere with or adversely influence your performance at Wabtec. Similarly, you must end your activities if and when, in the future, these activities constitute competition to Wabtec or become related to the operations of Wabtec. Further, outside activities may not be conducted from Wabtec facilities or involve the use of Wabtec time, equipment, supplies or other resources.

There are additional rules pertaining to the giving/receiving of a gift or the offering/accepting of hospitality which are further explained in the Anti-Bribery / Anti-Corruption Policy.

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Wabtec has established accounting and other internal control standards and procedures to ensure that all Wabtec assets are protected and properly used and that financial records are accurate and reliable. Everyone shares the responsibility for maintaining and complying with required internal controls and ensuring that Wabtec assets are not misused.

Wabtec's record-retention policies are established in compliance with United States regulations and laws. Where local requirements and laws differ from those of the United States, records must be retained for the longer of Company policy or local requirements.

PROCEDURES FOR THE RECEIPT, RETENTION AND TREATMENT OF COMPLAINTS

The Audit Committee of Wabtec has established procedures for the receipt, retention and treatment of complaints received regarding improprieties relating to accounting, internal accounting controls or auditing matters and confidential, anonymous submission of complaints by employees of concerns regarding questionable accounting or auditing matters. Complaints regarding such matters should be sent to the **Ethics Compliance Officer** or by contacting Wabtec's **Ethics and Compliance Hotline** as described more fully below in the section entitled **"Reporting of a Violation of This Policy or a Violation of Any Law, Rule or Regulation".**

RESPONSIBILITIES

In addition to complying with this Policy, you should also familiarize yourself with Wabtec's Policy/Procedure Manual and report any suspected policy violations. There will be no retaliation for good-faith reports of suspected Policy violations and all reports will be addressed as confidentially as possible.

While this Policy applies to everyone, managerial and supervisory employees have a special duty to lead by example, to ensure that those whom they supervise are complying with the Policy and to respond promptly, appropriately and effectively to all alleged violations of the Policy.

CONSEQUENCES OF POLICY VIOLATIONS

Violations of this Policy, unethical conduct and illegal acts are all forbidden and may result in discipline, including termination of employment, or criminal and/or civil prosecution.

REPORTING OF A VIOLATION OF THIS POLICY OR A VIOLATION OF ANY LAW, RULE OR REGULATION
The Company has appointed the **Ethics Compliance Officer** to ensure compliance and investigate suspected Policy violations. Everyone is encouraged to raise questions or report any suspected violations without fear of retaliatory action. Each question or suspected violation will be treated with confidentiality and the highest degree of respect, and the individual may remain anonymous if they desire. If you have questions regarding this Policy or appropriate action in a particular circumstance, immediately contact the **Ethics Compliance Officer, Scott E. Wahlstrom at (412) 825-1418 or swahlstrom@wabtec.com** .

If you do not feel comfortable contacting management directly you may also raise concerns or report suspected Policy violations by contacting Wabtec's confidential **Ethics and Compliance Hotline** utilizing one of the following options:

- **Toll-Free Hotline (U.S. /Canada – English Speaking):** **877-860-1054**
- **Toll-Free Hotline (U.S. /Canada – Non English Speaking):** **888-273-6085**
- **Toll-Free Hotline (Outside the U.S. and Canada):** **See Attachment "A"**
- **Secure web reporting at:** **www.tnwinc.com/wabtec**
- **E-mail at:** **reportline@tnwinc.com**
- **Fax at:** **770-409-5008**
- **Postal Service:** **The Network**
  Attn: Wabtec
  333 Research Court
  Norcross, GA 30092

(Note: Wabtec's Hotline services are operated by an independent company called The Network. The Network offers multi-lingual services which are available 24 hours a day, 7 days a week).

All concerns will be relayed to Wabtec Corporation for review. Upon receiving a report of a concern or suspected Policy violation, the Ethics Compliance Officer will immediately document and investigate that report. If a violation is detected, the Company will take prompt measures to mitigate the violation, including disciplinary action as defined herein.

Remember:
When in doubt, ask before acting.

APPENDIX: A

Outside the U.S. and Canada Hotline Phone Numbers

Dialing Information and Instructions:

- Availability of calling options varies by country due to local restrictions. This may require using a different access code or type of phone. If phone service is not available then please contract Wabtec utilizing one of the other available reporting options.
- In countries where the Type of International Service is AT&T Direct, first dial the local Access Code then wait for a tone then dial the Toll-Free Number.

Country	Type of International Service	Access Code (For AT&T Direct Only)	Toll-Free Number
Brazil	AT&T Direct	**0-800-890-0288**	877-860-1054
Brazil	AT&T Direct	**0-800-888-8288**	877-860-1054
France - Telecom	AT&T Direct	**0-800-99-0011**	877-860-1054
France - Telecom Development	AT&T Direct	**0805-701-288**	877-860-1054
Germany	AT&T Direct	**0-800-225-5288**	877-860-1054
Italy	AT&T Direct	**800-172-444**	877-860-1054
Japan - KDDI	AT&T Direct	**00-539-111**	877-860-1054
Japan - Softbank Telecom	AT&T Direct	**00-665-5111**	877-860-1054
Japan - Softbank Telecom	AT&T Direct	**00-441-1111**	877-860-1054
Macedonia	AT&T Direct	**0-8000-4288**	877-860-1054
Mexico (English Speaking Operator) - Mexico New	AT&T Direct	**01-800 288-2872**	877-860-1054
Mexico (Spanish Speaking Operator) - Por Cobrar	AT&T Direct	**01-800-112-2020**	877-860-1054
Mexico (English Speaking Operator)	AT&T Direct	**001-800-462-4240**	877-860-1054
Mexico (Spanish Speaking Operator)	AT&T Direct	**001-800-658-5454**	877-860-1054
South Africa	AT&T Direct	**0-800-99-0123**	877-860-1054
United Kingdom - British Telecom	AT&T Direct	**0-800-89-0011**	877-860-1054
United Kingdom - C&W	AT&T Direct	**0-500-89-0011**	877-860-1054
United Kingdom - NTL	AT&T Direct	**0-800-013-0011**	877-860-1054

Country	Type of International Service	Toll-free Number (In country toll free format)
Australia	ITFS	**1-800-09-4144**
India	ITFS	**000-800-100-1303**
Malaysia	ITFS	**1-800-81-4639**
China North - China Netcom Group	ITFS	**10-800-711-0927**
China South - China Telecom South	ITFS	**10-800-110-0854**

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

Officer	Title	Telephone Number
Albert J. Neupaver	Chief Operating Officer	1+412/825-1000
Raymond T. Betler	President & Chief Operating Officer	1+412/825-1000
Alvaro Garcia-Tunon	Executive Vice President & Chief Financial Officer	1+412/825-1000
David J. Meyer	Vice President – Group Executive - Transit	1+412/825-1000
Robert Dezzi	Vice President/General Manager – Transit	1+864/433-6475
Patrick D. Dugan	Senior Vice President – Finance	1+412/825-1000
Scott Wahlstrom	Senior Vice President – Human Resourses	1+412/825-1000

P.O. BOX 11
SPARTANBURG, S.C. 29304-0011
PHONE (864) 433-5900
FAX (864) 433-6338

CREDIT FACT SHEET

A/P MAILING ADDRESS:	P. O. BOX 3330 SPARTANBURG, SC 29304-3330 WPT_AP@WABTEC.COM
PHYSICAL BUSINESS LOCATION:	130 RIDGEVIEW CIRCLE RIDGEVIEW CENTER, RT. 290 DUNCAN, SC 29334
DELIVER TO LOCATION:	ROGERS ROAD DUNCAN, SC 29334
DIVISION OF:	WABTEC STATION STREET WILMERDING, PA 15148
TAX EXEMPT NUMBER:	1680293-000 (19) SOUTH CAROLINA
FEDERAL TAX ID NUMBER:	25-1615902
DUNS NUMBER:	61-292-6675
TYPE OF BUSINESS:	MANUFACTURER OF PASSENGER TRANSIT RAILROAD EQUIPMENT
DIVISIONAL ANNUAL SALES:	EST. $100 MILLION
BANK REFERENCE:	JPMorgan Chase Bank, N.A. Marie Cottino 277 Park Ave, 22nd floor New York, NY 10172 Tele 212-622-0689 / Fax 866-231-9431
BANK REFERENCE: (LOCAL)	BB&T Jennifer Edwards 2075 E. Main Street Duncan, SC 29334 864-949-2018
TRADE REFERENCES:	NANNEY & SON INC 205 AIR DEPOT ROAD EAST GLENCOE, AL 35905 256-492-2910
	FORREST MACHINE P.O. BOX 2137 MANSFIELD, OH 44905 419-589-3774
	SUPERIOR TOOL INC P.O. BOX 429 PICKENS, SC 29671 864-868-9450